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REGULAR REPORT

ON

SLOVAKIA'S

PROGRESS TOWARDS ACCESSION

2001

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A. Introduction

a) Preface

In Agenda 2000, the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership, and that it would submit its first Report at the end of 1998.

The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make Regular Reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” ... “The Commission’s reports will serve as the basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.”

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second series in October 1999, and a third in November 2000. The Commission has prepared this fourth series of Regular Reports with a view to the Laeken European Council in December 2001.

The structure followed for this Regular Report is the same as that used for the 2000 Regular Report. In line with previous Regular Reports, the present Report:

- describes the relations between Slovakia and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Slovakia's situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Slovakia's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety standards, as underlined by the Cologne and Helsinki European Councils. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as emphasised by the Madrid European Council in December 1995, and confirmed by the Gothenburg European Council in June 2001. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Gothenburg European Council emphasised the vital importance of the

candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening and reforming their administrative and judicial structures.

This Report takes into consideration progress since the 2000 Regular Report. It covers the period until 30 September 2001. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 2000 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Slovakia in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Slovakia's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last Regular Report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, provides, besides an assessment of progress made over the reference period, also a dynamic, forward-looking evaluation of Slovakia's economic performance.

The Report contains a separate section examining the extent to which Slovakia has addressed the Accession Partnership priorities.

As has been the case in previous Reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures, which are in various stages of either preparation or Parliamentary approval, have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment of each country in terms of its concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations¹, have served as additional sources. Council deliberations and European Parliament reports and resolutions² have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

¹ As in previous years, the Report does not mention any commitments undertaken or requests made in the context of the accession negotiations.

² For the European Parliament the *rapporteur* is Mr. Marinus Wiersma.

b) Relations between the European Union and Slovakia

Recent developments under the Association Agreement (including bilateral trade)

The implementation of the Europe Agreement has run smoothly, and no significant trade problems have been noted. Slovakia has continued to contribute to the smooth functioning of the various joint institutions. The seventh meeting of the Association Council took place in June 2001 following the Association Committee meeting held in December 2000. The system of sub-committees has also continued to operate well as a forum for technical discussions. Since publication of the Commission's last regular report the Joint Parliamentary Committee, comprising representatives of the Slovak National Council and the European Parliament, met twice, for its 11th and 12th meetings in Brussels in March 2001 and in Kosice in October 2001.

In general, trade relations between the European Community and Slovakia continue to be positive. In 2000, EC imports from Slovakia stood at €7 billion, whilst in the same period, EC exports to Slovakia stood at €6.5 billion. Machinery and electrical and transport equipment continued to dominate on the export and import side from and into the EC. As in 1999, in 2000 Slovakia had a positive trade balance with the EC, amounting to €430 million. Exports to the EC accounted for 59 % of total exports and the share of imports from the EC was 49 % of total imports. While both these figures decreased slightly compared to 1999, they reflect a high degree of trade integration with the EU; bilateral trade flows between the EC and Slovakia have more than quadrupled since 1993.

An import surcharge was phased out by January 2001 in accordance with the envisaged timetable.

In June 2001 the Commission decided to initiate an anti-dumping investigation concerning imports of certain tubes and pipe fittings, of iron and steel, originating, in Slovakia, amongst other countries.. The temporary safeguard measures (in the form of export quotas) on exports of certain cereals , which were introduced in 2000 were extended and are due to run until December 2001. Duty-free tariff quotas for certain basic agricultural commodities introduced at the same time were eliminated at the end of December 2000.

Regarding agricultural products, a new agreement on reciprocal concessions with Slovakia entered into force in July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement. As a consequence of this agreement, approximately two thirds of the traditional EC agricultural imports from Slovakia and 40 % of the EC agricultural exports to Slovakia benefit from preferences. A second round of bilateral negotiations for trade liberalisation is presently being prepared and would cover more sensitive sectors in which current trade is low, in particular due to a high degree of tariff protection. For processed agricultural products and fish, negotiations have been concluded at technical level. The relevant decisions of the Council are under preparation.

Following preparatory work already reported on in last year's Regular Report, Slovakia accepted the Commission's invitation to open negotiations on a Protocol to the Europe Agreement on Conformity Assessment (PECA). A first round of negotiations took place in Brussels in June 2001. Discussion focused on a framework agreement and a number of sectoral

annexes. Once agreed, the PECA should play an important role in trade facilitation between the EC and Slovakia as important benefits of the single market become available to both parties.

An Association Council Decision was adopted in May 2001 concerning a five-year extension of the treatment of the whole of Slovakia as an Article 87 (3)(a) area for state aid purposes. A further Association Council Decision concerning implementing rules governing state aid is in the process of being adopted. As regards the request from the Slovak authorities for the passage to the second phase of the Europe Agreement, Slovakia has made good progress, particularly concerning requirements related to capital movements, and technical discussions on the few remaining issues are on-going. Outstanding issues mainly concern rights of establishment, in particular, the position of EU lawyers.

Accession Partnership / National Programme for the Adoption of the Acquis

A revised Accession Partnership was adopted in December 1999 - its implementation is reviewed in Part D. This Regular Report is accompanied by a proposal from the Commission to update the Accession Partnership.

In June 2001, Slovakia presented a revised National Programme for the Adoption of the *acquis* (NPAA), in which it outlines its strategy for accession, including how to achieve the priorities of the Accession Partnership (*see Part D*).

Community aid

There are three **pre-accession instruments** financed by the European Community to assist the applicant countries of Central and Eastern Europe in their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. These programmes concentrate their support on the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

For the years 2000-2002 total financial assistance to Slovakia amounts annually to around €78 million from Phare, €18.6 million from SAPARD, and between 3.5 and 5.5% of the overall ISPA budget.

The **Phare** programme has been providing support to the countries of Central and Eastern Europe since 1989, helping them through a period of fundamental economic and social transition and political change. Its current “pre-accession” focus was put in place in 1997, in response to the Luxembourg European Council’s launching of the present enlargement process.

Phare provides the applicant countries of Central and Eastern Europe with support for institution building (around one third of the Phare allocation), investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* (equally around one third of the allocation), and investment in economic and social cohesion (the remaining one-third of the Phare allocation). This support comprises co-financing for technical assistance, “twinning” and investment-support projects, to help these countries in their efforts to adopt the *acquis* and strengthen the institutions necessary for implementing and enforcing the *acquis*. This also helps the candidate countries develop the mechanisms and institutions that will be needed to

implement Structural Funds after accession and is supported by a limited number of measures (investment or grant schemes) with a regional or thematic focus.

The Phare programme allocated to Slovakia commitments of €356 million during the period 1993-1999 and €78.8 million in 2000³. The **2001 Phare Programme** for Slovakia consists of an allocation of €43.5 million for the National Programme, concentrated on the following priorities:

- Political criteria: support in the educational field and improving the living conditions of the Roma while promoting tolerance and integration into society;
- Internal Market: support of a market surveillance system in consumer and health protection; customs;
- Energy;
- Transport;
- Economic and social cohesion;
- Reinforcement of administrative capacity: strengthening the independence of the judiciary; public internal financial control.

Funds have also been set aside to finance a "Twinning Light" facility.

In addition, Phare committed €25 million in support of the decommissioning of Bohunice V1 NPP.

A further €12 million has been allocated for Cross-border Co-operation (CBC) programmes, notably with Austria (€6 million), Poland (€4 million) and Hungary (€2 million).

Slovakia also participates in and benefits from Phare funded multi-country and horizontal programmes, such as TAIEX and the Small and Medium-sized Enterprises Facility.

Furthermore, Slovakia participates in several Community programmes, such as the 5th Framework Programme for Science and Technology, Socrates, Leonardo, Youth, the 3rd multi-annual programme for SMEs, Culture 2000, and SAVE. Following the ratification and entry into force of the agreement, the formal participation of Slovakia in the European Environment Agency will start in January 2002. In order to streamline Community legal procedures and thereby facilitate Slovakia's future participation in Community programmes, a Decision is in the process of being adopted by the EU-Slovakia Association Council establishing the general principles for such participation.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as banking privatisation, SME development, trade promotion, environment, justice and home affairs, and agriculture. Phare support for SME development has succeeded in initiating essential institutional and

³ This includes an allocation of €12 million to Cross-Border Co-operation (CBC) Programmes, and €20 million for nuclear decommissioning.

financial mechanisms serving enterprises in this sector. In agriculture, Phare has been providing assistance in the veterinary and phyto-sanitary sector.

In Slovakia, Phare for example played a particularly important role in:

- A well-guided Bank Privatisation and Financial Sector Restructuring Programme: Phare has been supporting several projects (with an overall allocation of over €5 million) aiming, *inter alia*, at strengthening the administrative capacities of the Ministry of Finance, which has been co-ordinating the privatisation process.
- Reconstruction of the Sturovo-Esztergom bridge and building of the appropriate customs facilities on the Slovak - Hungarian border. Phare provided an overall allocation of €10 million - €5 million each for Slovakia and Hungary - for the reconstruction of the 328-metre steel structure bridge destroyed during the Second World War. This project will contribute to improving the local transport facilities and give new impetus to the local economy, at the same time enhancing bilateral relations.
- The Environmental Grant Scheme has provided grant support to capital investment projects in the private and public sectors which directly facilitate compliance levels in the key environmental problem areas. A Phare grant (€15 million) has mobilised local sources amounting to €25 million, making it possible to build and complete 87 environmental facilities.
- In the transport sector, Phare funds were committed to build a 6.5-km section of the D-61 motorway by-passing the city of Bratislava (€15 million). The new link will divert transit traffic and part of the urban through-traffic away from congested city centre streets, thus improving traffic conditions, safety and environmental conditions in the city centre. This project is also co-financed by the European Investment Bank.

The Phare Review for 2000 confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The Review foresees the possibility that management of the Phare funds can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis on raising the verifiable and quantifiable impact of Phare projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

The Commission approved the Slovak **SAPARD** programme for Agriculture and Rural Development in November 2000. The programme is based on three major priorities: (1) improvement of the agricultural production sector, including the food industry, supporting investments in farm holdings and investments aimed at contributing to the upgrading of agri-food enterprises to EC standards and increasing their competitiveness; (2) support to sustainable rural development with a view to increasing job opportunities and to developing an ecologically sound management of natural resources; and (3) developing of human resources. Average annual public expenditure will amount to €24.6 million (at 2000 prices) of which the Community will contribute €18.6 million (maximum annual amount). The Multi-annual Financing Agreement, which sets out the rules for implementing SAPARD, and the Annual Financing

Agreement, which sets out the Community financial commitment for the year 2000 to Slovakia, were signed in March 2001. A monitoring committee for the monitoring of the SAPARD programme has been established. The Monitoring Committee adopted its rules of procedure and gave a positive opinion on the proposed monitoring indicators. The Slovak authorities are in the process of finalising all steps necessary to prepare the national accreditation of the SAPARD Agency.

Slovakia received €42.4 million in assistance from the **ISPA** programme in 2000, with €11.6 million assigned to environmental projects and €30.8 million assigned to transport projects. The Financial Agreements were signed in 2001. The Slovak Government has defined the following three priorities for ISPA financing in the environment sector: wastewater and drinking water; air quality improvement; waste management. As regards transport, the Slovak Government has defined its priorities for ISPA financing in the rail, roads and water sector. The implementation structures are in place. A National Authorising Officer and two Sectoral Authorising Officers have been appointed. Two implementing agencies were established, one for the area of transport, the other for the area of railways.

At project level, three environmental projects were adopted in the field of waste water treatment.

Twinning

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, the European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States' expertise is now being made available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

To start with, twinning focused primarily on the priority sectors of agriculture, environment, public finance, justice and home affairs and preparatory measures for the Structural Funds. It now covers all sectors pursuant to the *acquis*.

A total of 372 twinning projects, primarily in the fields of agriculture, environment, public finance, justice and home affairs and preparation for the management of Structural Funds, have been funded by the Community between 1998-2000. These represent the principal priority sectors that have been identified in the Accession Partnerships. But also other important sectors of the *acquis* have been addressed through twinning, for example, social policy, fight against drugs, transport, and telecommunications regulation.

Thanks to the strong support and response from EU Member States 103 twinning partnerships, funded by Phare 1998 and involving all candidate countries and almost all Member States are coming to an end or have been concluded. Under Phare 1999 a further 124 projects are being implemented and the programming exercise for Phare 2000 includes a further 145 twinning projects. The 2001 programming exercise foresees 131 twinning projects in all Phare beneficiary countries as well as Cyprus and Malta. Furthermore, the candidate countries are being offered the possibility of drawing on Member States' expertise through Twinning light in order to address well-circumscribed subjects of limited scope, which emerge during the

negotiations process as requiring adaptation. It is estimated that around 250 twinning projects are operational throughout the candidate countries at any one time.

For the Slovak Republic, 9 twinning projects have been financed under the 2000 National Programme. These projects will cover sectors like the Roma minority, the fight against corruption and drugs, the establishment of a guarantee fund for employees in case of employers' insolvency, the development of social dialogue, environment (Implementation of the Environmental Impact Assessment Directive and the strengthening of the Slovak Environment Inspectorates), business register census and product standardisation and certification.

Negotiations / screening

The analytical examination of the *acquis* (screening) has taken place in the context of meetings of the Association Committee and the sub-committees.

Since the opening of the accession negotiations, substantial discussions on the individual chapters of the *acquis* started, and by June 2001, negotiations on all chapters (with the exception of chapter 30 – Institutions and chapter 31 – Other) have been opened.

By the end of September 2001, the following 19 chapters had been provisionally closed: Free movements of goods, free movement of persons, freedom to provide services, free movement of capital, company law, fisheries, economic and monetary union, statistics, social policy and employment, industrial policy, small and medium-sized undertakings, science and research, education and training, telecommunications and information technologies, culture and audiovisual policy, consumers and health protection, customs, external relations and common foreign and security policy.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”⁴

In its 2000 Regular Report on Slovakia’s progress towards accession, the Commission concluded that:

“Slovakia continues to meet the political criteria for accession which the last report had recognised, for the first time, as having been fulfilled. Slovakia has further advanced in the consolidation of its democratic system and in the normal functioning of its institutions. However the speed of the reform process has lost some momentum due, in part, to dissension within the ruling coalition.

Certain legal steps were taken to strengthen the independence of the judiciary. However, key parts of the reform, in particular the constitutional amendment with regard to the nomination and probationary system, which were set as a short term priority, have not yet been adopted. Therefore, continued efforts are needed to ensure the independence of the judiciary.

Progress was also achieved in the fight against crime and corruption, mainly in formulating a government policy and transposing international obligations. The translation of good intentions and well thought-out concepts into specific actions should not be delayed, in order to improve Slovakia’s otherwise insufficient record in this respect.

Further progress can be noticed in developing approaches to tackle the problems of minorities, but there remains a gap between policy formulation and implementation on the ground. Tangible improvement of the situation of the Roma minority in particular by implementing specific measures, a short term priority of the 1999 Accession Partnership, has therefore not been achieved to a large extent. Increased efforts in implementing legislation in various sectors as well as strengthening policies and budgetary means in line with the medium term priorities of the 1999 Accession Partnership are needed in this respect.

The adoption of the civil service law and starting implementing the strategy of the public administration reform, both short term priorities of the 1999 Accession Partnership, have been delayed. Sustained efforts are required to maintain momentum in these important areas of the reform process.”

The section below aims to provide an assessment of developments in Slovakia since the 2000 Regular Report, as well as of the overall situation in the country, seen from the perspective of

⁴ These principles have been emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

the political Copenhagen criteria, including as regards the overall functioning of the country's executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Slovakia's ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Slovakia's ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part *B.3.1.* of this Report.

Recent developments

The process of consolidation of democratic institutions noted in the two previous reports has continued. In line with the normal political calendar there have been no elections during the period. The referendum on early parliamentary elections, initiated by the opposition and carried out in November 2000, failed because of insufficient voter turnout.

1.1. Democracy and the rule of law

As mentioned in the previous Regular Reports, Slovakia has achieved stability of institutions guaranteeing democracy and the rule of law. This section focuses on the most significant developments of the past year.

The Parliament

During the reporting period, the Parliament reached agreements on key reforms which had been considerably delayed in the past.

In February 2001, the Parliament adopted an amendment to the Constitution, thus taking a significant step forward in consolidating democratic institutions, strengthening the rule of law and preparing Slovakia for EU accession. The amendment provides, *inter alia*, the constitutional basis for transferring the exercise of a part of Slovakia's sovereign rights to the EU and provides for the supremacy of EC law over Slovak legislation. The transposition of EC legislation has been facilitated by introducing the possibility in this regard of issuing Government decrees in certain circumstances. Moreover, the amendment empowers Slovakia to join organisations for mutual collective security. It strengthens the judiciary, extends the control powers of the Supreme Audit Office and lays down the legal basis for the creation of territorial self-government units. The amendment also provides for the establishment of the office of an ombudsman for human rights. Other key reforms concerned the decentralisation of the public administration and the civil service. Furthermore, amendments were also introduced to make the system of financing political parties more transparent and reinforce the relevant control mechanisms.

Furthermore, the Parliament approved a Security and a Defence Strategy, setting and confirming the country's integration into EU and NATO as a priority. It is important to note that these decisions were widely supported by the opposition.

The proper functioning of Parliamentary Committees and Supervisory Bodies was – as already reported last year – still hampered due to the continued refusal of the opposition parties to take the chair posts offered to them. The vacancy of the chair post of the Special Supervisory Committee for the Slovak Intelligence Service was filled by a Member of Parliament from the

coalition. The chair positions on the Parliamentary Committees for Social Affairs and Housing, Culture and Media, Healthcare and Conflict of Interests, Agriculture, as well as on the Special Supervisory Committee for Military Information remained vacant.

As a reaction to the establishment of a new party by the Prime Minister, the ruling Christian Democrats left the parliamentary club of the Party of the Democratic Coalition and founded their own group in Parliament. The number of independent deputies increased to eight, mostly due to departures from the ruling coalition.

The uncertainties surrounding the validity of two contradictory presidential amnesties, as reported last year, remained. The criminal proceedings against an opposition Member of Parliament who had been accused *inter alia*, of the abduction of the son of the Slovak ex-president, were stopped by a district court on the grounds that the original amnesty was valid. The Parliament did not succeed in annulling the two relevant amnesties.

The Executive

Significant progress was achieved with regard to the structure and functioning of the administration, as a legal framework for the public administration reform was established. Following internal tensions within the ruling coalition on this issue, both the Government and Parliament reached agreement at the end of the reporting period, thus meeting an important priority of the 1999 Accession Partnership.

The basic principles of self-administration, which is a key element of public administration reform in Slovakia, were laid down in the constitutional amendment adopted by the Parliament in February 2001, referred to above. Self-administration at municipal level will be complemented at regional level. In July 2001, the Parliament adopted a law, setting the number of self-administrative regions at 8, and a law on elections for the regional self-administrative bodies. The first elections are scheduled for December 2001. The remaining package of laws relating to the decentralisation of public administration reform was passed in September and October 2001. The law on competencies transfers a considerable number of functions from state to regional level. Four different acts stipulate the property to be transferred to the municipalities and self-administrative regions, set the legal conditions for fiscal decentralisation and determine the salaries of the chairpersons of the self-administrative bodies. It is now important that this legal framework for public administration reform is implemented without delay, ensuring the functioning of a democratic, efficient and sustainable self-administration.

With regard to the modernisation of the public administration, an important step forward was achieved with the adoption of the Civil Service Law in July 2001. It addresses such basic elements as the scope, recruitment and remuneration of the civil service. The provisions combine the aims of fostering the creation of a professional, reliable, impartial and politically neutral civil service on the one hand and ensuring good social and economic conditions for civil servants on the other. The law grants civil servants life-long tenure. All officials, currently working in the state administration as well as new candidates, have to pass a qualification exam to receive such permanent status. Officials have to declare their assets and will have to act in compliance with code of ethics, though the latter has yet to be adopted. Specific provisions of the Civil Service Law aim at avoiding a conflict of interest. The performance of civil servants is evaluated annually.

The legal framework for state employees other than civil servants was established by the adoption of the Public Service Law in July 2001.

Due implementation of these two laws is now needed to ensure that the public administration suitably fulfils the key role it has to play in a functioning democracy based on the rule of law and in support of the accession process..

The Government has started to implement the results of the state audit approved last year. Its aim is to enhance the quality, reduce the costs and promote the transparency of the central state administration. In July 2001, the Government approved a plan to increase the number of staff dealing with EU integration by approximately 1200 in 2001 and 2002.

The Judicial System

The 1999 Accession Partnership established as a short term priority the strengthening of the independence of the judiciary, in particular amending the constitution with regard to appointment of and probationary system for judges.

Over the past year, Slovakia has taken important steps to strengthen the independence of the judiciary and the prosecutors.

- The constitutional amendment adopted by Parliament in February 2001, referred to above, abolished the four-year probationary period for judges.
- Another important element of the amendment is the provision for setting up a Judicial Council, carrying out crucial administrative functions concerning the judicial system. According to this amendment, the Council, headed by the President of the Supreme Court, will consist of nine judges and nine other members. The latter 9 members are appointed by the Parliament, the President of the Republic and the Government respectively. The Council has, among other competencies, the sole right to submit proposals for the nomination and the recall of judges (including the President and Vice-President of the Supreme Court), to decide on the assignment or transfer of judges to individual courts, and to nominate the members of disciplinary senates. The important role this Council will play within the judiciary highlights the vital importance for its chairman, the President of the Supreme Court, to carry out his functions in an impartial and efficient way.
- The amendment to the constitution also deems the exercise of specified other functions, including membership of a political party and business activities, to be incompatible with the office of judge.
- Furthermore, the amendment of the constitution also provides for the widening of the competencies of the Constitutional Court. It grants, *inter alia*, wider access for individuals to this court. The Court will be entitled to award pecuniary satisfaction to individuals whose fundamental rights have been violated. The number of its judges will be increased from 10 to 13.
- The Act on Prosecution and the Act on Prosecutor and Candidate Prosecutors were amended in March 2001. They reinforce, *inter alia*, the administrative system of the prosecution system, introduce a new, more transparent promotion procedure and establish a permanent disciplinary commission.

Whilst these developments are most welcome, further legislative steps are now needed to implement the constitutional provisions aiming at strengthening the independence of the judiciary, including action in budgetary terms. It is important that progress is made notably in adopting the Act on the Judicial Council.

Significant improvements at practical level are also needed to guarantee the judiciary's professional impartiality and political neutrality. Reports and surveys continue to show that corruption remains a serious problem. The judiciary is not united in approaches to combat corruption. For instance, the attempts of some courts, to monitor corruption have been criticised by a number of judges, including the President of the Supreme Court. Further simplification of procedures and changing mechanisms for assigning cases in courts would constitute an important step towards improving this situation. Increased training of judges, hand in hand with providing suitable equipment and administrative staff is also a matter of priority.

An EU Expert mission carried out in February pointed out that the prosecution system constituted one of the main weaknesses of the judicial system in Slovakia. The subsequent responsibilities of police, investigators and prosecutors appear to make the whole procedure very long, complex and rather cumbersome. The accountability and transparency of the investigation procedure should be ensured.

Slovakia currently has 1278 judges 1171 of whom work in regional and district courts. This is a slight increase as compared to the last report. The number of cases filed continued to increase, reaching approximately 900,000 annually. The duration of judicial proceedings, with an average length of almost 13 months in civil cases, remains an issue of concern. The average length in criminal proceedings amounted to around 4 months. An amendment to the Act on Civil Procedure, however, adopted in October 2001, aims at shortening the duration of the judicial proceedings by, inter alia, extending the first instance competencies of the district courts and limiting the appeal to the regional courts.

Anti-corruption measures

In the last Regular Report the Commission recognised a number of positive measures but indicated that the translation of good intentions and well-thought-out concepts into specific actions should not be delayed. In this reporting period, additional legislative steps and individual measures were taken to tackle this issue.

Following the adoption of the National Programme for the Fight against Corruption last year, the government approved in November 2000 the individual action plans submitted by the line ministries, consisting of more than 1,500 concrete tasks. Although constituting a further step forward, a number of proposed actions were reportedly too vague to make them operational and verifiable. According to the Government, around half of the tasks have been fulfilled. In December 2000, the Government established a central co-ordination unit for the fight against corruption, which is in charge of ensuring the complementarity of measures taken by the different Government bodies in the fight against corruption and of reporting to the Steering Committee, set up last year at the Office of Government. The functioning of this steering committee was weakened after the representative of the Ministry of Justice left the body, following a disagreement with the other members. This committee consists of officials, NGOs and international donors and is formally responsible for the implementation of the National Programme.

The adoption of the Civil Service Law and the Act on Prosecutors referred to above represented a considerable step forward in combating corruption. These items of legislation have introduced provisions to eliminate possible conflicts of interest including an obligation to declare assets held. However, proposals to address possible conflicts of interest for Members of Parliament more effectively failed to gain support in the Parliament.

The Law on Free Access to Information entered into force in January 2001, contributing to the improvement of transparency in public life. However, it appears that full and effective implementation is being hampered notably by a non-uniform treatment among administrative bodies concerning documents considered to be secret and by insufficient awareness among the population.

Further progress was achieved in the field of party financing. Provisions were approved by the Parliament in October 2000, obliging political parties to divulge all donations and donors. In February 2001, the Parliament adopted rules aiming at improving the control over the use of financial resources for election campaigns. Measures adopted in April 2001 require independent auditors to check the accounts of political parties.

The commercial register was introduced on the internet on a trial basis as of October 2000 and extended to all regions from 1 January 2001. The Government has also published a list of basic principles concerning licences, concessions and permits as a preparatory step to setting up the necessary registers.

The sentences for bribery and abuse of power were significantly increased by an amendment to the Criminal Code adopted in June 2001. However, the post of specialised “anti-corruption prosecutor” has not yet been introduced.

Strict enforcement of the aforementioned rules is now necessary to ensure that the provisions have a positive impact.

The number of persons convicted of corruption increased from 173 in 1999 to 197 in 2000. According to the Slovak Statistical Office, the number of people in the public administration demanding bribes has decreased. The perception, continues, however, that corruption is still widespread in Slovakia, notably in areas like health care, customs, education, police and in the courts.

In March 2001, the Head of the Department at the Government Office for European Integration, responsible for Phare co-ordination and also executive National Aid Co-ordinator, was dismissed following suspicion that he occupied positions in certain companies which might have constituted a conflict of interest with his official functions and possible misuse of funds. The Slovak Police are investigating the case while the Slovak Supreme Audit Office has carried out an audit of the Office of the Government, the results of which were published at the end of October 2001. The audit report comes to the conclusion that there is no evidence for fraud or misuse of funds. It has criticised, however, the existence of institutional weaknesses and insufficiencies in the management of pre-accession funds. The Slovak authorities are in the process of analysing the report with the aim of improving substantially the management and control of these funds as well as of future Structural Funds.

Slovakia successfully participated in the Council of Europe Group of States against corruption (GRECO). The GRECO evaluation report, issued at the end of last year, acknowledged further

progress in Slovakia, notably at policy level, but called for the effective implementation of a number of recommendations. These recommendations cover a broad range of measures, including in the area of granting licenses, privatisation, police, investigation and the judiciary.

The ratification in May of the 1990 Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime is a highly welcome, important development. Slovakia has ratified the Council of Europe Criminal Law Convention, and signed the Council of Europe Civil Law Convention. Slovakia participates actively in the monitoring of anti-corruption measures effected by the OECD Working Group on Bribery in international commercial transactions.

1.2. Human rights and the protection of minorities

As mentioned in the previous Regular Reports, Slovakia continues to respect human rights and freedoms. The following section concentrates on major developments since the last Regular Report.

Slovakia has already ratified the major human rights conventions (*see annex*). The Revised European Social Charter still remains to be ratified. Slovakia has not undertaken to be bound by the Additional Protocol providing for a system of collective complaints.

In November 2000, Slovakia signed the Protocol No.12 to the European Convention for the Protection of Human Rights and Fundamental Freedoms, prohibiting discrimination on any grounds. Specific anti-discrimination legislation transposing the EC anti-discrimination *acquis* remains to be adopted. The Government, however, is in the process of developing such legislation, with the aim of providing clear definitions and bans on discrimination as well as procedures to enforce these rules (*see also chapter 13 – Social policy and employment in part B.3.1. of this report*).

The constitutional amendment of February 2001 has created the legal basis for the office of an ombudsman for human rights. The ombudsman, elected by the Parliament, will help protect fundamental rights and freedoms in cases where public administration bodies have violated the legal system or the rule of law. The relevant primary legislation now needs to be adopted, and the office of the ombudsman needs to be established and equipped with sufficient human and financial resources.

Civil and political rights

Over the past year, limited further progress was made in this area, notably by strengthening the institutional set-up against trafficking of human beings, and in the fight against racism and xenophobia.

Degrading treatment by the *police*, notably towards some members of minorities, continues to be reported. The Ministry of Interior recorded around 4000 complaints in 2000 against law enforcement officials. 552 of these complaints, including cases of physical coercion and unreasonable use of coercive methods, were found to be justified. In July 2001, a 51-year old Roma man was beaten to death by police officers while held in detention. This case highlights the need for urgent action to improve police recruitment and training as well as to establish an efficient system for examining complaints of police misconduct.

A special branch within the Office for the fight against organised crime was created in order to fight *trafficking of persons*. Slovakia has increasingly become a country of origin, transit and destination for the trafficking of women and children.

With regard to *pre-trial detention*, some evidence has appeared indicating that in certain individual cases the three-year limitation for proceedings is not being respected. In December 2000, the European Court of Human Rights delivered a judgement concerning the lack of speedy decision related to the applicant's detention in a mental hospital, establishing a violation of the European Human Rights Convention.

In the field of *asylum*, an independent body to act as the second instance in the asylum procedure still needs to be established.

The Government continued to implement the action plan to prevent all forms of discrimination, racism, xenophobia, anti-semitism and other forms of intolerance. Amongst other things, public awareness campaigns and various education initiatives have been carried out. The focus included training of professional groups like police officers and judges in the area of human rights. Furthermore, courses on the prevention of intolerance were introduced into the curricula of primary and secondary schools. An ordinance of March 2001 aims to make the activities of the police more effective in the fight against racism and xenophobia.

The *freedom of expression* and *freedom of religion* are enshrined in the Constitution of the Slovak Republic, and no particular problems have been reported in this regard.

Economic, Social and Cultural Rights

A number of positive developments have taken place in this area since the last Regular Report, notably in the area of equal opportunities.

The Government adopted a Policy paper for *equal opportunities* between women and men in March 2001. Its aim is to identify concrete steps to enhance equal opportunities both at legislative and institutional level with a focus on three areas: the labour market; public and political life; and the family. The adoption of the new Labour Code in June 2001 is a step forward in ensuring equal opportunities, namely as regards pregnant workers, equal access, burden of proof and parental leave (*see Chapter 13 - Social Policy and Employment in part B.3.1. of this report*). Out of 150 Members of Parliament, 19 are women.

Slovakia ratified the Optional protocol to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) in November 2000.

The Committee for *Children's Rights* established last year was abolished. However, an advisory body for the promotion and protection of the rights of children, was set up but is not yet operational. There is no comprehensive legislation on the protection of children.

The integration of *socially vulnerable and disabled persons* remains a matter of concern, partly due to the absence of appropriate measures taken by the Government and to insufficient legislation. There is a lack of adequate labour opportunities notably for mentally and physically handicapped people. However, in June 2001, the Government adopted a National Programme for the Development of Living Conditions for Citizens with Disability in All Areas of Life in June

2001, which aims at enhancing equal opportunities and integration of disabled citizens into society.

The involvement of the *trade unions* in the social dialogue has been satisfactory. The revised European Social Charter has still not been ratified by the Parliament.

Minority rights and the protection of minorities

With the exception of the Roma minority, the recognised minorities in Slovakia (numbering more than ten) are comparatively well integrated in Slovak society. This was also acknowledged by the Advisory Committee on the Council of Europe Framework Convention. The Committee highlighted, in particular, the achievements made in improving inter-community relations, notably vis-à-vis the Hungarian minority, representing the largest minority group in Slovakia.

The implementation of the basic treaty with Hungary has continued. The government largely agreed to the crucial demands of the ruling party SMK, which politically represents the Hungarian minority in Slovakia. The accord notably concerned the accession to the European Charter of Regional and Minority Languages and the creation of a faculty for Hungarian teachers at the university in Nitra. Whereas the Government is willing to provide funds for the faculty, the autonomous administrative bodies of Nitra university have so far been reluctant to follow the agreement reached on the political level.

The situation of the Roma minority remained difficult. The Roma minority is sizeable, although its precise proportions are not well known. According to the last census, conducted in 1991 it accounted for 1.6 % of the population, but could be as high as nearly 10 % . The census carried out in the second quarter of 2001, in which for the first time bilingual Slovak-Hungarian, Slovak-Ruthenian, Slovak-Ukrainian and Slovak-Romany forms were used, is expected to improve the accuracy of available data on minority communities.

The under-representation of Roma students in the education system, hand in hand with over-representation in schools for retarded children continued to exist. The practice of separate classrooms for Roma students was reported in a number of cases. Housing conditions, notably in the so-called “settlements” mostly in the Eastern part of Slovakia, remain a matter of concern. There has also reportedly been obstruction of access to public utilities and social services, including health care. Violence, notably at the hands of “skinheads”, continued to be a serious threat to this minority. In 2000, the police recorded 35 cases of racially motivated crimes, with Roma being the biggest group of victims. In some cases, Roma were exposed to serious ill-treatment by the police.

The 2000 Regular Report noted that considerable progress had been made in introducing the appropriate legislation and supporting institutions deemed necessary in the field of minority rights but that only limited progress was observed in actual implementation. Over the reference period, substantial further efforts have been made by the Slovak Government and some municipalities as regards national minorities:

- In June 2001, Slovakia ratified the European Charter of Regional and Minority Languages. The Charter will apply to the Bulgarian, Croatian, Czech, German, Polish, Roma, Ruthenian and Ukrainian languages in all municipalities with over 20 % of any of those minorities. In line with the flexible instruments provided for by the Charter, the Hungarian minority will

benefit from the most generous provisions. The Government has entrusted the Government's Council on National Minorities and Ethnic Groups with acting as the advisory body on the implementation of the Charter.

- Implementation of the Government Roma strategy, which was adopted last year, started at both national and local government level. More than 100 projects were carried out in the areas of housing and infrastructure, education and training, employment, social affairs and health as well as culture. Around 50 % of the € 4 million budget, allocated for the implementation of this strategy was spent.
- A number of settlements were identified for which urgent action is needed, mostly to improve the housing situation for Roma. The issue of property ownership, frequently impeding adequate solutions, is in the process of resolution in some settlements. The Government has allocated around €5 million for the implementation of a social housing programme, from which the Roma population is expected to benefit, too.
- In the field of employment, the Government allocated in 2001 approximately €35 million in 2001 to finance public beneficial works. This programme is being implemented by local authorities, NGOs and religious organisations. Members of Roma communities are among its beneficiaries.
- In the area of education, the Government continued to establish pre-school preparatory classes for Roma children and complete construction of a number of schools in municipalities with a high proportion of Roma.

Notwithstanding the positive steps taken, efforts need to be continued and even reinforced to remedy the numerous disadvantages the Roma minority is facing. The gap between good policy formulation and its implementation on the spot, as observed in last year's report, has remained.

Strengthened implementation of the strategy, including adequate financial support at national and local level, as well as appropriate training of the people involved, is therefore urgently needed. Due co-ordination amongst the ministries concerned is required to integrate sound policy approaches into sectoral strategies and concrete actions. Co-operation between the Government and the Roma community needs to be improved. An early involvement of the Roma in project programming and implementation is necessary. The office of the Government Plenipotentiary (who was replaced by another Roma representative in May 2001) has started to reinforce its impact. Its managerial capacity and budget should be enhanced. It would appear that difficult co-operation on the side of the Roma community has contributed to diminishing the positive outcome of the implementation phase.

The frequent lack of pre-school education, teacher training which does too little to leave people able to cope with the specific needs of the Roma children, poor housing conditions, and high unemployment have largely contributed to a situation which deepens further social exclusion. These issues need to continue to be tackled as a priority. The number of well-trained Roma advisors to the local authorities and the number of social workers at each level of public administration should be increased and accompanied by suitable legislative and financial support.

Concerning the implementation of the Law on the Use of Minority Languages, there continues to be limited availability of concrete data. The impression noted in last year's report that in many

areas national minorities do not make use of the rights granted under the law due to lack of information remains valid.

1.3. General evaluation⁵

In its 1999 Regular Report, the Commission concluded that Slovakia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Slovakia continues to fulfil the Copenhagen political criteria.

Significant progress was achieved with regard to the structure and functioning of the administration. The legal framework for the decentralisation of public administration was adopted, and so was the civil service law. Due implementation of the legislation is now required to ensure that the public administration adequately fulfils the key role it has to play in a functioning democracy based on the rule of law and in support of the accession process.

Important steps were taken to strengthen the independence of the judiciary. In particular, the constitutional amendment abolished the four-year probationary period for judges and provided for setting up a Judicial Council. This amendment now needs to be implemented by primary legislation and at a practical level to guarantee the judiciary's professional impartiality and political neutrality.

Further progress can be noticed in the fight against corruption, notably in translating and implementing the government policy into concrete actions and transposing international obligations. Corruption, however, remains a serious cause for concern. In order to continue improving the fight against corruption Slovakia should rigorously carry on the implementation of the action plans, strictly enforce existing legislation and complete planned legislation as well as strengthen administrative capacities and co-ordination among the bodies involved.

The constitutional reform also created the basis for the strengthening of Slovakia's institutional structure in the field of human rights. However, there is a need to address police behaviour, notably with regard to reported cases of ill-treatment

Significant efforts in further developing and putting into practice approaches to protect minority rights were taken in the reference period, notably in implementing relevant Government strategies. Positive steps were achieved towards enhancing the use and protection of minority languages. As regards the Roma minority, the implementation of the Roma strategy, adopted subsequently in 1999 and 2000, should be further enhanced and the appropriate financial means at national and local level should be made available. In this context it will be important to improve efforts to fight against widespread discrimination.

The short term priorities of the 1999 Accession Partnership related to the modernisation and decentralisation of the public administration were fulfilled. Important steps were taken in strengthening the independence of the judiciary, which constituted a short term priority, as well. Despite further positive measures, tangible improvement of the situation of the Roma minority,

⁵ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

another short term priority, was achieved only to a limited extent. So were the medium term priorities for the political criteria of the 1999 Accession Partnership, calling for continued implementation of minority language legislation and strengthening policies and budgetary means towards the Roma minority.

2. Economic criteria

2.1. Introduction

In its 1997 Opinion on Slovakia's application for EU membership, the Commission concluded:

“Slovakia has introduced most of the reforms necessary to establish a market economy”; it “should be able to cope with competitive pressure and market forces within the Union in the medium term, but this would require more transparent and market-based policies”.

This finding was confirmed in the 1998 Regular Report. In its 1999 Regular Report, the Commission acknowledged that progress had been made, and in its 2000 Regular Report, the Commission concluded that:

“Slovakia can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that the structural reform agenda is fully implemented and broadened to include remaining reforms.”

In examining the economic developments in Slovakia since the Opinion, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressures and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion, as well as in the 1998, 1999 and 2000 Regular Reports.

2.2. Economic developments

Slovakia has maintained macroeconomic stability originating from the austerity package of early 1999. Real GDP growth has been accelerating over the reporting period. Nevertheless, unemployment remains high. Inflation has been further reduced. Trade and current account deficits continued to narrow in 2000, but have been widening very substantially again in 2001. The deficit of all components of general government has also been widening in comparison to 2000. The government has committed itself to limiting the deficit for 2001 to 3.9% of GDP (excluding bank restructuring cost and called-on guarantees). In a challenging environment, the National Bank of Slovakia has been able to engineer a relaxation of monetary policy while comfortably complying with its inflation reduction target band.

| Main economic trends | | | | | | | |
|--|------------------|--------|--------|--------|-------|-------|----------------------|
| Slovak Republic | | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 latest |
| Real GDP growth rate | per cent | 6.2 | 6.2 | 4.1 | 1.9 | 2.2 | 2.9 H1 |
| Inflation rate ⁶ | | | | | | | |
| - annual average | per cent | 5.8 | 6.1 | 6.7 | 10.6 | 12.1 | : |
| - December-on-December | per cent | 5.4 | 6.3 | 5.7 | 14.1 | 8.4 | 7.4 (Sept.) |
| Unemployment rate, end-year | | | | | | | |
| - ILO definition | per cent | 11.3 | 11.8 | 12.5 | 16.2 | 18.6 | 19.2 P Q2 |
| General government budget balance ⁷ | per cent of GDP | -2.1 | -5.7 | -4.9 | -5.7 | -6.7 | : |
| Current account balance | per cent of GDP | -10.0 | -9.0 | -9.3 | -5.0 | -3.7 | -8.1 H1 |
| | million ECU/Euro | -1,564 | -1,616 | -1,764 | -920 | -773 | -875 ⁷ H1 |
| Foreign debt | | | | | | | |
| - debt export ratio | per cent | 40.4 | 53.7 | 59.6 | 68.3 | 50.8 | : |
| - gross foreign debt | million ECU/euro | 3,472 | 5,603 | 6,922 | 7,771 | 7,796 | : |
| Foreign direct investment in flow | | | | | | | |
| - balance of payments data | per cent of GDP | 1.8 | 1.1 | 3.2 | 2.0 | 10.8 | 6.8 H1: |
| | million ECU/euro | 285 | 195 | 609 | 366 | 2,258 | 738 ⁸ H1 |

⁶ PROXY HICP since 1996 (see methodological notes)

⁷ Source: Website of National Bank

⁸ Source: Website of National Bank

Slovakia has made progress with the implementation of further structural reforms. This is particularly the case for the restructuring and privatisation of the banking sector. It has also made progress in the restructuring and privatisation of remaining state-owned enterprises and in the promotion of private sector development. In addition, reforms have been implemented in the government sector, notably in public finance management. However, the bulk of medium-term public expenditure reforms still lies ahead. This holds especially with respect to the health and pension systems.

| Main Indicators of Economic Structure in 2000 | | |
|--|-----------------------------|---------|
| Population (average) | thousand | 5,401 P |
| GDP per head ⁹ | PPS | 10,800 |
| | Per cent of EU average | 48 |
| Share of agriculture ¹⁰ in: | | |
| - gross value added | per cent | 4.5 |
| - employment | per cent | 6.7 |
| Investment-to-GDP ratio ¹¹ | per cent | 30.0 |
| Gross foreign debt/GDP ¹² | per cent | 37.3 |
| Exports of goods & services/GDP | per cent | 73.5 |
| Stock of foreign direct investment | million euro | 5,399 |
| | euro per head ¹³ | 1,000 |

Slovakia has been catching-up with the EU, but it shows considerable regional and urban/rural disparities in general living conditions and unemployment. For the country as a whole, per capita income in purchasing power standards has reached over 48% of the EU average in 2000, up from 43% in 1995. Its regional distribution varies from a low 39% in the East Slovakia region to a very high 99% in the Bratislava region in 1998. The economic activity rate has remained rather constant at 60% over the period 1995 to 2000, while the employment rate has been declining to 56.3%. Unemployment has risen to about 18.5% of the labour force

⁹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁰ Agriculture, hunting, forestry and fishing.

¹¹ Data refer to Gross fixed capital formation as % of GDP.

¹² Estimated.

¹³ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

in 2000 from 11.3% in 1996 (labour force survey data), The unemployment rate among persons younger than 25 was 35.2% and the male and female unemployment rates were 19.5 and 18.6%. Long-term unemployed accounted for 53.9% of all unemployed. Given the strong correlation between unemployment and social conditions, the latter may have somewhat deteriorated over recent years, although the social safety net seems to be providing a cushion against most of the temporary social hardships.

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

The existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

The member parties of the governing coalition, which represent a broad range of the political spectrum in the country, have maintained sufficient political consensus on the need for further consolidation of macroeconomic stabilisation and for further structural reforms. The government made a broad range of crucial economic policy commitments, in particular in connection with a Staff Monitored Programme with the International Monetary Fund and an Enterprise and Financial Sector Adjustment Loan with the World Bank. In addition, the government approved and submitted a Pre-accession Economic Programme in the context of the Commission's pre-accession fiscal surveillance exercise at the beginning of October. The commitments taken will help to lock in the economic reform momentum as next year's parliamentary election approaches.

On the macroeconomic side, real growth has been accelerating again after a growth slowdown, which was caused by the implementation of an austerity package in early 1999. It amounted to 2.2% in 2000 and to 2.9% (year-on-year) in the first half of 2001. In 2000, a negative growth contribution by domestic demand was more than compensated for by the positive contribution by net exports. In the meantime, the driving forces behind GDP growth have been re-balanced. The growth contribution by net exports was negative in the first half of this year, whereas domestic demand contributed positively. Although exports staged a still significant increase of 10.0%, imports grew even faster by 15.4%. Mostly private sector and foreign-direct investment linked gross fixed capital formation has picked up by a sizeable 14.2% year-on-year. As a consequence of growth in real household income, owing to increases in employment and real wages and to cuts in taxes, private consumption has been strengthening as well, and may be encouraged further as the National Property Fund's privatisation bonds are being redeemed. It grew year-on-year by 2.9% in the first half of 2001.

Unemployment has continued to increase. Not the least as a result of accelerated enterprise restructuring but also due to deficiencies in the labour market, unemployment has risen to 19.2 percent of the labour force in the second quarter of 2001, from 16.2% in 1999 (ILO definition).

Inflation has been further reduced. As in 2000, increases in administered prices contributed again to inflation in the first months of this year, but the effect was much smaller. In consequence, the year-on-year consumer price index (CPI) headline inflation rate has stayed

consistently below its end-of-2000 level of 8.4%. It amounted to 7.4% in September. The core inflation measure, which eliminates the effects of changes in administered prices and indirect taxes, has been much lower and remained in a range between 3.6 and 5.4%. In September, it was 4.4%.

Trade and current account deficits continued to narrow in 2000, but have been widening to a very sizeable degree again this year. In 2000, the trade deficit was reduced to 4.7% of GDP from 5.5% of GDP in 1999. The current account deficit decreased from 5.0% of GDP in 1999 to 3.7% of GDP in 2000, not the least due to a good development in the transport services balance resulting from higher oil and gas transit fees. However, during the first half of this year, the deficits worsened again considerably. As mentioned above, real import growth outpaced export growth in the first half of this year and the trade deficit rose to 9.0% of GDP. Whereas this year's considerable import growth has consisted to a large extent of investment goods so far, in particular related to foreign direct investment (FDI), consumer goods may make up a higher share towards year-end. The current account deficit deteriorated in parallel to the trade balance and amounted to 8.1% of GDP in the first half of this year.

The current account deficit in 2000 has been comfortably financed by foreign direct investment. FDI inflows reached a record level in 2000 and amounted to 10.8% of GDP. A major part of the FDI inflows were privatisation-related. Further considerable privatisation-related FDI inflows, in particular in connection with the privatisation of the Slovak Gas Company (SPP), are still outstanding, and FDI inflows are expected to cover the current account deficits for this year and next year as well.

Strict fiscal discipline remains crucial for the consolidation of the government's macroeconomic stabilisation achievements. After a sizeable fiscal tightening in 1999, the deficit of all components of general government in 2000 amounted to 3.4% of GDP. For 2001, the government was authorised in the budget act to run a deficit for all components of general government of around 4.9% of GDP (excluding bank restructuring costs and called-in guarantees). However, in the context of the aforementioned Staff Monitored Programme with the International Monetary Fund, the government has committed itself to limiting this deficit to 3.9% of GDP. So far, budget execution seems to be compatible with this target. Nevertheless, strict expenditure control is crucial to ensure compliance for the whole of this year. Concerning 2002, the government has committed itself to a further reduction of the general government deficit to 3.4% of GDP, thus approaching its medium-term deficit target of 2% by 2005. The general government net borrowing figure according to harmonised EU standards (ESA95) for 2000, which was submitted to the Commission in the first pre-accession fiscal notification in April, amounts to 6.7% of GDP.

Significant tax reductions have come into force. In particular, corporate income tax was reduced from 40 to 29% and the import surcharge, which had been temporarily introduced in 1999, was phased out in 2000. There was no concurrent compensation by a broadening of the tax base or by corresponding administrative efforts in tax collection. Avoidance of any future tax cuts without compensatory measures, as well as further advances in the already initiated tax administration reform and in tax collection, are prime requirements for the envisaged fiscal consolidation.

In comparison to 2000, the budgeted use of privatisation revenues for financing expenditure was substantially reduced this year. It is important that the government

implements its further commitments in this direction, so that future privatisation revenues are exclusively used for the retirement of government liabilities and the financing of the transition cost of the planned pension reform. A reduction of public debt and, consequently, of the public interest burden will increase budgetary flexibility.

Major expenditure reforms in the human development area, notably in the health and pension system, still lie ahead. The Slovak authorities have undertaken a number of first steps towards medium-term reform. However, the planned fiscal consolidation will hinge on rapid reform progress. A comprehensive pension reform, which consists of further changes in the current pay-as-you-go system to reduce the government's implicit pension debt, the creation of a new mandatory pre-funded component, and the promotion of voluntary pre-funding, is being prepared and should be instituted as soon as possible, based on robust calculations of its fiscal consequences. In the health area, relief of fiscal strains through continued reforms is equally urgent. Furthermore, the social protection system should be further reviewed for adjustment needs under efficiency and incentive compatibility aspects. Finally, efforts need to focus on additional administrative and collection improvements in the social protection system, e.g. through the introduction of unified collection.

Subsidies to and guarantees for state-owned enterprises are another reform area on the expenditure side which is crucial for medium-term fiscal consolidation. The government has limited the issue of new state guarantees in 2001. Its plans to reduce the outstanding stock in the coming years are commendable. Major necessary reform steps in the subsidy area relate to the railway system, which the government is dividing into two separate entities for railroads, on the one hand, and transport and trade activities, on the other hand, in order to start the liberalisation of rail transport.

Slovakia has been making progress in the conceptualisation and implementation of public finance management reforms. Amendments to the Budgetary Rules Act were put into effect. Important reform steps have been undertaken in the area of budget preparation and coverage. In connection with the 2001 budget, medium-term fiscal planning in the context of a medium-term macro-economic framework was initiated. Transparency has been increased, notably by the on-going inclusion of most extra-budgetary state funds into the state budget and by continuing improvements in budgetary classification. The focus on the overall situation of general government has been strengthened. In addition, an advanced budget preparation schedule has been introduced in connection with the budget for 2002.

However, several important reform steps still need to be implemented in the public finance management area, too. Careful design and co-ordination of all reforms across central government institutions, including the National Bank of Slovakia (NBS), and across all government levels, is vital for success. The government's administrative and fiscal decentralisation project poses particular challenges in this respect, and care needs to be taken that it does not reverse some of the results already achieved or hamper further progress in fiscal management and consolidation. A good example for the extensive co-ordination requirements is the on-going building-up of the treasury system and the planned creation of an autonomous debt management agency. The introduction of the latter also needs to be connected with the reform of the legal framework for debt management and of the domestic debt market.

In a challenging environment, the National Bank of Slovakia was able to engineer a relaxation of monetary policy while comfortably complying with its inflation reduction

target band. Interest rates have further moved downwards since the end of last year, while inflation has been comfortably anchored in the single digit range. Within its inflation benchmarking framework, the NBS cut its key overnight rates to 6% (sterilisation rate) and 9% (refinancing rate) in March. Exchange rate interventions have been limited and only used for exchange rate smoothing. In future, strong FDI and other capital inflows may put continued appreciation pressure on the Slovak crown. This may challenge monetary policy, especially if fiscal policy is not adequate.

The current policy mix tends to put too much burden on monetary policy, while fiscal policy is presently somewhat too expansionary. Fiscal consolidation remains crucial. This holds in particular against the backdrop of the recent sharp widening of the trade and current account deficits and of the prospects for their medium-term development. In the medium term, the policy mix will become more balanced if fiscal consolidation is implemented as planned, thus mitigating risks stemming from the trade and current account.

The equilibrium between demand and supply and the free interplay of market forces have been further strengthened by additional price deregulation. In February 2001, another price deregulation package became effective and further enhanced cost recovery and profitability of the affected sectors, after increases in administered prices had already taken place in 1999 and 2000. This year's major areas of price adjustments were housing, energy and other utilities, public transport, postal services and telephones.

Excellent progress has been made in the privatisation of the banking sector. After the successful restructuring of the loan portfolio of the three major state-owned banks in 1999 and 2000, the sale of an 87% stake in the largest one, the Slovak Savings Bank (SLSP), to a foreign investor was completed at the beginning of this year. In addition, an approximately 95% stake in the General Credit Bank (VUB), the second-largest state bank, was sold to a foreign investor in 2001. A strategic investor for the third state bank and sixth largest Slovak bank, the Investment and Development Bank (IRB), has been identified and the sale is likely to be completed soon. Further progress has also been made in the privatisation of remaining state-owned small and medium-sized banks. A majority stake of Polnabanka was sold in November last year. Slovakia's smallest bank, Banka Slovakia, is still being tendered. The restructuring and privatisation of the Slovak insurance company, Slovenska Poistovna, which still had a market share of almost 50% in 2000, is in progress and is planned to be finalised by year-end. Its majority stake in a Slovak bank, Istrobanka, has been offered for sale.

The restructuring and privatisation process in the utilities and transport sector advanced as well. The privatisation tender for the sale of a 49% stake in the Slovak Gas Company (SPP) was launched at the end of August. It had been transformed into a joint stock company on July 1. A 49% stake in the oil company, Transpetrol, has also been tendered. The pre-privatisation restructuring of Slovak Electricity (Slovenske Electrame) has been started. Privatisation is planned for next year. Further privatisation plans concern three electricity distributors, bus transport, water and sewage, and health care facilities. In 2000, the private sector share in the Slovak economy reached around 83% of GDP.

There is additional scope for dismantling bureaucratic obstacles to market entry and for facilitating access to financing for newcomers, in particular for small and medium enterprises (SMEs). The government has already taken some measures in this direction and should further review possibilities of streamlining entry regulations and their implementation. In

addition, the financing opportunities for new enterprises need to be enhanced. The development of the banking sector will play a decisive role in this respect. Improvements in the legal system, e.g. with respect to the collateral system, are also crucial.

Last year's amendments to the bankruptcy framework strengthened creditor rights and created opportunities to accelerate bankruptcy procedures. However, it is too early to assess the overall effect of the new legislation, not least since one important stipulation only went into force in February this year. An inter-agency commission has been set up to prepare another round of improvements of bankruptcy rules.

Effective implementation of the legal framework needs to be strengthened, although the legal rules for a functioning market economy are largely in place and additional important changes are being prepared. Legislative proposals on improvements in the collateral system and in the corporate governance architecture (e.g. Commercial Code, Securities Law) should be approved and implemented as soon as possible. A particularly decisive factor for the effective implementation of the legal framework is the strengthening of the judiciary system.

The situation of the Slovak banking sector has substantially improved as a result of its restructuring and privatisation. At the end of June 2001, the reported aggregated capital adequacy ratio (excluding the workout agency Slovak Consolidation Bank) had risen to 19.7%. The reported share of non-performing loans in total loans was still 17.6%, and some doubts about the strictness with which the loan classification rules are applied may be justified. Nevertheless the share of non-performing loans is significantly lower than before the start of bank restructuring when it amounted to almost 40% (June 1999). The provisioning ratio for the non-performing loans was 68% at the end of June 2001. The banking sector ended 2000 with a reported profit of around SKK 12 billion compared to a loss of almost SKK 17 billion in 1999 (again without the Consolidation Bank). Increased foreign participation in the sector should foster the transfer of management skills and contribute to better credit decisions.

For the time being, the banking sector does not yet properly fulfil its intermediation role. As the sector is reconfiguring itself and awaits further improvements in its operating environment, banks are still very hesitant to expand credit, especially of a longer-term nature and to new customers. Credit growth to the private sector is currently contracting in real terms and new credits are predominantly short-term. In particular, access to financing by small and medium-sized enterprises, which cannot tap foreign sources, is a problem and hampers the diversification of Slovakia's growth base.

The non-bank financial sector is embryonic. Some action has been taken or is being prepared to strengthen the legislative framework for securities markets and for institutional investors. Concerning the equity market, a strengthening of transparency and of minority shareholder rights is necessary to increase the market's attractiveness to investors. The government has been lengthening the maturity structure of its debt instruments; this should have a positive effect on the development of the government bond market. Activity in the municipal and corporate bond markets is very small. The implementation of a coherent strategy for the further development of the non-bank financial sector is crucial. The provision of a sufficiently broad spectrum of diversified investment opportunities for expanding institutional investors should be ensured, not least with a view to the planned introduction of a mandatory pre-funded

pension component. This would help to maximise the beneficial effects of pension reform for financial market development.

Further steps for strengthening the regulatory, prudential, and supervisory framework of the financial sector, in particular for enhancing its implementation, are necessary. A comprehensive legislative package has been prepared and, to a large extent, adopted. Amendments to the NBS Law and the Slovak Constitution went into force in May and in July 2001, respectively, and strengthened the power and accountability of the NBS banking supervision. To a similar effect, a new banking law was approved by parliament at the beginning of October. A new agency for the supervision of capital markets and insurance companies was established in November last year. However, its legal and institutional framework needs to be further reinforced. For the time being, the supervision of banks will stay with the NBS. Efficient co-operation procedures between the NBS and the new agency should be set up. It is vital that the mentioned and any further necessary improvements, concerning in particular bank governance, bank supervision, accounting, disclosure and auditing, are effectively implemented. In particular, supervisory capacity and resources need to be augmented to ensure effective implementation.

The capacity to cope with competitive pressure and market forces within the Union

The ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Slovakia is a functioning market economy. In recent years, Slovakia's commitment to tackling difficult reforms has been firmly established. The maintenance of macroeconomic stability and a clear direction in structural reforms enhance the predictability of economic agents' operating environment, thus contributing to Slovakia's competitiveness.

A better use and retraining of human capital resources remain urgent priorities for fully exploiting and for extending Slovakia's growth potential. Key reasons for Slovakia's low employment and high unemployment rate are the lack of regional mobility, the high tax and social contribution wedge, labour market segmentation, skill mismatches, and, to some extent, perverse incentives in the social protection system. In particular, reforms in the health and pension system are necessary to tackle these problems. A more active approach by the National Labour Office and a reform of the malfunctioning housing market could contribute to a reduction of regional disparities in unemployment. In general, labour market flexibility needs to be a most important consideration in all reform measures.

Slovakia's gross fixed capital formation has been accelerating again – a process which is to a large extent FDI-induced. After a drop to 30% of GDP in 2000, gross fixed capital formation rose by 14.2% year-on-year in the first half of 2001. The increase is to a large extent

connected with foreign direct investment. As reported above, foreign direct investment reached a record level last year and is expected to reach similar proportions this year and next year. Slovakia has been instituting new incentives for investments. Some of these measures favour disadvantaged regions. The government has also been working on the improvement of the business environment. Further progress in the latter is of utmost importance to foster attractiveness and efficiency of investments. In addition, key infrastructure bottlenecks, especially in disadvantaged regions, need to be removed.

Increased financial discipline, in particular induced by bank restructuring and an improved legal framework, should speed up enterprise restructuring. One policy measure to increase financial discipline is the on-going market-based workout of the bad loans which were carved-out from the three major state-owned banks. As of end-September this year, the Slovak Consolidation Agency (SKA), which had received the bulk of these loans (around 97 billion SKK or almost 11% of the 2000 GDP), had decreased its loan portfolio by around 20 billion SKK, mainly by auctions to the private sector. The workout process is being streamlined by the take-over of the other workout institution, Konsolidacna Banka (KOB), by the SKA. Complementarily, the new bankruptcy framework and improvements in the collateral regime and the corporate governance architecture (see above) are likely to yield beneficial effects on financial discipline and the overall situation of the enterprise sector.

A major obstacle for small and medium-sized enterprises is their limited access to bank financing, although Slovakia has been introducing a number of support measures for SMEs. Small and medium-sized enterprises accounted for around 58% of employment and 28% of exports in 2000. More information on the progress reached with respect to the creation of a conducive environment for SMEs can be found in chapter 16.

Government interference in the enterprise sector is being reduced. Bank restructuring and privatisation have been a milestone in this direction and the envisaged restructuring and privatisation in the energy, utility, transport and health sectors will continue along this avenue. In sharp contrast to past practices, the granting of state aids and guarantees is being restricted strongly and made more conditional.

Slovakia has already reached a high degree of trade integration with the EU and is a very open economy. Exports to the EU as a share of total exports account currently for around 60%, compared with only around 40% in 1996. The share of imports from the EU in total imports amounts to approximately 50%. These shares reflect a high degree of trade integration with the EU, given that the overall openness of Slovakia – defined as the sum of imports and exports in percent of GDP – is very high and amounts to around 150%. Apart from sizeable, mostly energy-related imports from Russia, most non-EU trade is conducted with the Czech Republic. Machinery and manufactured products continue to dominate on the import and export side. The CPI- and unit labour cost-based real effective exchange rates have been following an upward trend since the beginning of this year, but have so far stayed in last year's range.

2.4. General evaluation¹⁴

Slovakia is a functioning market economy. Provided that it makes further substantial efforts in medium term fiscal consolidation and in developing and fully implementing the announced structural reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Overall, macroeconomic stability has been maintained. There has been further good progress in bank privatisation, which is nearing completion. Further progress was also made in restructuring and towards privatisation of the remaining state-owned utilities and transport enterprises. Further progress was made in setting the framework for private sector development.

However, the substantial widening in the current account deficit will require a more prudent fiscal policy stance. Unemployment is high and rising. Some parts of the legal and institutional framework for enterprise development are in need of further improvements and effective implementation. Financial sector supervision has to be further strengthened. Steps must be taken to ensure the medium-term sustainability of public finances. The authorities need to comply with their fiscal targets, by implementing medium-term public expenditure reforms, in particular in the health, pension, and subsidy areas. Macroeconomic stabilisation will need to be consolidated by a continued prudent combination of fiscal and monetary policy. Further progress in privatisation, in the administrative and legal framework and in financial sector reforms will set the stage for future private sector development. Growth in employment will further require fundamental reforms of the labour market.

¹⁴ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 2000 Regular Report on Slovakia's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2000 Regular Report, this section seeks to provide an overall assessment of Slovakia's ability to assume the obligations of membership, and of what remains to be done. This section is structured to follow the list of twenty-nine negotiating chapters, and incorporates an assessment of Slovakia's administrative capacity to implement the *acquis* in its various aspects. Slovakia's progress in translating the *acquis* into its official language is assessed in a separate section.

The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of effectively incorporating Community legislation into national legislation, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

The European Council in Santa Maria da Feira and in Gothenburg in June 2000 and June 2001 respectively recalled the vital importance of the applicant countries' capacity to implement and enforce the *acquis*, and added that this required important efforts by the applicants in strengthening and reforming their administrative and judicial structures. Building on the assessment of Slovakia's administrative capacity provided in the 2000 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 2000 Regular Report, the Commission concluded that :

"Slovakia has continued to make significant progress in legislative alignment with the *acquis*, thus furthering its ability to assume the obligations of membership. However, progress has not been uniform across chapters. As already indicated in last year's Regular Report, a number of areas continue to lag behind, such as company law, agriculture, transport, regional policy and co-ordination of structural instruments, the environment and financial control. Also, progress is generally more noticeable in legislative developments than in the strengthening of the institutions responsible for implementation and enforcement. These weaknesses need to be remedied. Appropriate resources should be allocated for this purpose.

Concerning *internal market legislation*, noticeable progress has been achieved in public procurement, financial services and capital movements and in preparing a basis for full alignment in the New Approach area, including standardisation. Little progress has been achieved as regards free movement of persons, as a general framework for the recognition of foreign professional qualifications has not been established. Apart from continuing alignment, a particular challenge is now to provide adequate capacity for the implementation and enforcement of the *acquis*. In *company law*, there has been no substantial progress in alignment with the partial exception of accounting law. Further sustained efforts are needed, in particular

with regard to trademarks and patents as well as the fight against piracy and counterfeiting. In competition policy legislative progress means anti-trust rules are largely in line and the focus should now shift to their correct application. Despite some progress in the state aids area further legislative steps are required and the newly created State Aid Monitoring Authority should be strengthened.

Tangible progress has also been reached in the area of *statistics* and efforts should be maintained, especially concerning macro-economic statistics and harmonisation of regional statistics. Substantial progress has been achieved in the *industrial policy* sector through continuing privatisation and restructuring. Particular attention needs to be paid to the respect of EU state-aid rules. Significant progress, notably in terms of legislation, has also been made in the *telecommunication* and *audiovisual* sector. The emphasis must now turn in particular to strengthening administrative capacity. Whilst Slovakia has also advanced well in the field of *consumer and health protection*, both as regards safety related measures and non-safety consumer protection, some further alignment is required and adequate co-ordination and strengthening of those bodies involved in market surveillance activities needs to be ensured.

In the case of *co-operation in the field of justice and home affairs*, significant progress has been achieved mainly in aligning visa policy and asylum legislation. However, considerable progress in all relevant *acquis* areas is needed, with a particular emphasis on migration, border control and fight against crime.

Only limited progress has been achieved in the *agricultural sector*, where efforts have focused on preparations for the SAPARD programme. Despite the progress achieved in the recent years, there is a need for accelerated alignment and implementation with particular emphasis on establishing an Integrated Administration and Control System, on adopting specific market regulations and continuing implementing veterinary and phytosanitary legislation. In the field of *transport*, limited alignment has been achieved in the area of road transport and inland waterways. However, most of the transport areas, notably rail and road transport, still require substantial alignment efforts and the strengthening of relevant administrative structures. Some limited progress has been made in the *energy* sector and in the field of *regional policy and co-ordination of structural instruments*; Slovakia needs still to enhance its alignment effort and to reinforce its administrative capacity in these sectors. Very little progress has been made in the field of *environment*, where substantial efforts remain necessary as regards legislative alignment, investments and implementation/enforcement capacity. Concerning *customs*, Slovakia had already achieved a considerable degree of legislative alignment, but it has not made significant progress during the period. Further efforts are still necessary to complete the legislative framework and to ensure proper implementation of the customs-related *acquis*. Little progress can be reported in the area of *financial control*, where Slovakia needs to make substantial progress, notably by developing the necessary public internal financial control functions.

As regards *administrative capacity* in general, Slovakia has made little progress, with a few exceptions, in strengthening the relevant institutions. Delays in the adoption of the public administration reform and in the civil service law further contribute to this general weakness.

The fulfilment of the short term priorities varies in a broad range from sector to sector. As regards the internal market, Slovakia has met the relevant priorities to a large extent. Whereas in the area of social policy and employment, energy and co-operation in the field of justice and

home affairs the short term priorities have been partially met, they have been fulfilled only to a limited extent in the case of agriculture. Concerning environment and reinforcement of administrative and judicial capacity, the short term priorities have essentially not been met.

Slovakia has taken some initial steps to start addressing a number of medium-term priorities.”

3.1. The chapters of the *acquis*

As indicated, the review of Slovakia’s ability to assume the obligations of membership that is below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called “four freedoms”, the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Since the last Regular Report, further good progress has been made by Slovakia in the free movement of goods field.

In the area of **horizontal and procedural measures**, an amendment to the existing Act on Technical Requirements for Products and Conformity Assessment was adopted by Parliament in October 2001. In February 2001, the government adopted a resolution on State policy in standardisation, metrology, testing and conformity assessment, based on the Council Resolutions of October 1999 on the role of standardisation in Europe and on mutual recognition. Further progress in the transposition of European harmonised standards has been made, as of September 2001, almost 70% of CEN European standards and almost two-thirds of CENELEC standards had been transposed into Slovak standards. In 2001, the Council for Conformity Assessment (under the auspices of the Slovak Office of Standards, Metrology and Testing - ÚNMS) became Slovakia’s national member of the European Organisation for Conformity Assessment.

Following an audit of the market surveillance system in Slovakia by the Ministry of the Economy, the Government adopted a resolution recommending both the creation of an integrated market surveillance body in the non-food sector and a foodstuffs surveillance authority under the competence of the Ministry of Agriculture (*see also Chapter 23 – Consumer and Health Protection*). Already a full member of the European Co-operation for Accreditation (EA), the Slovak National Accreditation Service (SNAS) was accepted as a signatory of the EA multilateral agreement (MLA) for calibration and testing at the 7th meeting of the EA General Assembly in Stockholm in June 2001.

As far as **sector specific legislation** is concerned, progress has been achieved in the areas covered by *New Approach Directives*, so that now 16 government ordinances transposing EC Directives have been adopted in total, including 10 in the reporting period. These covered the areas of recreational craft, marine equipment, hot-water boilers, fridges and freezers, personal protective equipment, civil use explosives, equipment and protective systems designed for use in explosive atmospheres (ATEX) and the three medical devices Directives. An Act amending the existing Act on construction products entered into force in January 2001. It should be noted

however that, as regards the government ordinances adopted in the previous reporting period on electromagnetic compatibility and low voltage, a transitional period until end 2002 still applies during which the former certification system stays in force.

As regards sectors covered by the *Old Approach Directives*, new chemicals legislation transposing a considerable amount of the *acquis* in this area entered into force in June 2001, following some delays already highlighted in last year's Regular Report. In the field of pharmaceuticals, a decree transposing the EC Directive on the pricing of medicinal products for human use entered into force in April 2001. Two further Decrees on registration of medicines and 10-year data exclusivity for high technology medicinal products entered into force in September 2001. As regards foodstuffs, some much-needed simplification of the certification and conformity assessment requirements has been introduced, although further steps to abolish the pre-market system of control are still required. A fairly limited part of the "vertical" legislation was adopted in 2001. No progress was achieved with regard to foodstuffs labelling. Cosmetics certification was completely abolished in February 2001. New Decrees transposing the EC directives on crystal glass and the labelling of footwear entered into force in the course of 2001. Two Government decrees on the labelling of materials used in crystal glass products and on the labelling of materials used in footwear entered into force in April 2001. No further progress can be reported in the field of motor vehicles.

In the **non-harmonised area** no new progress can be reported. No progress can be reported as regards transposition of both the **cultural goods** and the **arms** Directives.

In **public procurement**, some progress was made by the adoption of a Government Ordinance concerning the conditions for publication of notices, methods of public procurement, contents of tender documentation and the results of public procurement, which entered into force in January 2001. Since January 2001 a separate public procurement bulletin, 'Vestnik', has been published weekly by the Public Procurement Office (PPO) and made available free of charge. In the period between 1 January and 30 April 2001, the PPO carried out 75 investigations of complaints, received 259 appeals of which 31 resulted in the suspension or cessation of the procedure.

Overall assessment

Generally the level of alignment continues to be good, especially regarding legislation. Nevertheless, administrative procedures still give rise to problems in a number of areas, especially concerning the steps required to place products on the market. Adequate capacity for the implementation and enforcement of the *acquis* should be assured. On the whole, in most areas what remains to be done is clearly established, although some important tasks such as the need for compliance in the non-harmonised area require much more attention.

Efforts have been made to improve the situation with regard to the continued existence of certain pre-market certification requirements which are not in line with the *acquis*. However, entrepreneurs continue to complain of cumbersome, confusing and expensive procedures. Suspicion of corruption and intransparent behaviour is often cited as a serious obstacle for entrepreneurs when dealing with the relevant authorities, be they certification bodies, customs or inspection bodies. Such difficulties should be addressed and attention also paid to ensure that the planned deadline of 31 December 2002 for the elimination of certain previously mandatory certification is respected, if not brought forward. The proposed reorganisation of the market

surveillance system should occur in such a way that the resulting system is able to function at the same level as those in EU Member States, including as regards safety checks at external borders and implementation of the EC Regulation on checks for conformity with the rules on product safety. Independence, probity and efficient co-ordination between the actors involved are essential, as is adequate funding. Some legislation is in place as regards notification procedures and interchange of data between administrations, for which the necessary administrative structures need to be fully established. Arrangements for implementing the Regulation on the functioning of the internal market in relation to the free movement of goods should be put in place prior to accession.

Progress in the *New Approach* area has been particularly good, as is reflected in the number of ordinances adopted. Slovakia should now pursue the completion of alignment with the remaining New Approach Directives such as lifts and cable way installations, and in the Old Approach fields of motor vehicles, agricultural and forestry tractors, chemicals and pharmaceuticals. In the pharmaceutical area, for example, essential procedural rules for licensing are partly missing in the laws and the existing procedures often lack transparency and are inconsistently enforced. Although a decree transposing the EC Directive on the pricing of medicinal products entered into force in April 2001, provisions relating to deadlines and transparent procedures have yet to be implemented. As regards foodstuffs, adopted horizontal legislation needs to be reviewed, as it is not in all cases in conformity with the *acquis*. Although no major legislation was adopted in 2001, the Slovak Republic is making efforts to reorganise the administration so as to streamline the control authorities and cover efficiently the whole food chain (*see also chapter 7 - Agriculture*). Major effort will be required to strengthen the administration, clarify the numerous food acts and carry on the legislative transposition work.

It is important that, in all sectors, the relevant administrative infrastructure for application of the *acquis* be in place and function effectively by the date of accession, if not before. Overall there is still a mixed picture, but improvements are evident. The Slovak Office of Standards, Metrology and Testing as the central body responsible for standardisation and conformity assessment is operating effectively, though it will require strengthening in relation to its role for the free movement of goods in the non-harmonised sectors. The Slovak Standardisation Office and the Slovak National Accreditation Service also appear to be functioning well. The former is preparing its application for full membership of CEN/CENELEC and the latter is preparing further applications under the MLA within European Accreditation in the areas of certification and inspection bodies. In other areas, the proposed Centre for Chemical Substances and Preparations, a central procedure for authorisations for the placing of medicines on the market and the procedure for mutual recognition of registrations all still need to be instituted, however. There appears also to be a need for greater transparency in application of the rules at already existing authorities such as the State Institute for Drug Control (SUKL) and the Ministry of Health.

In the non-harmonised areas, Slovakia still operates a system of import licences, which is not in line with the *acquis*. The Slovak authorities should ensure all legislation in conflict with Articles 28-30 of the EC Treaty is amended by the date of accession. The practical implementation of the principle of mutual recognition is a question which must be urgently addressed by the Slovak authorities as the principle of mutual recognition has to be integrated into every piece of relevant Slovak legislation on goods.

The Public Procurement Office seems to be functioning well, although a number of important legislative gaps need to be filled concerning, *inter alia*, discriminatory provisions for the support of underdeveloped regions and the lack of coverage of privately owned utilities. Improvements to the current complaints/review system are still outstanding. The importance of transparency in public procurement cannot be overemphasised, especially with regard to negotiated procedures without prior notification and the need to address the issue of corruption and fraud in the awarding of public contracts.

Chapter 2: Free movement of persons

Further progress has been achieved since last year in this area.

In the field of **mutual recognition of professional qualifications**, no new developments can be reported.

As regards **citizens' rights**, the Act on elections for the regional self-administrative bodies adopted by the Parliament in June 2001 has included the right for foreign permanent residents to take part in the regional elections.

Some progress was made in the area of **free movement of workers**. The Civil Service Law adopted in July 2001 defines the nationality requirement in the light of the *acquis*. Efforts have continued to prepare Slovakia's participation in the European Employment Services (EURES) network, in particular concerning training of staff in languages and safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community which are regulated by the amendment to the Act on Supplementary Pension Insurance, effective from January 2001.

Slovakia has taken some steps to strengthen institutional capacity and bilateral relations with a view to the future **co-ordination of social security systems**. In November 2000 the Ministry of Labour, Social Affairs and Family set up an inter-ministerial Commission on social security systems. A bilateral agreement with the Netherlands covering health insurance and pension benefits was signed in May 2001.

Overall assessment

Overall, despite the considerable alignment with the *acquis* already achieved, preparation for the application of the *acquis* must be accelerated. This is especially true in the area of mutual recognition of professional qualifications for which Slovakia has to further develop the required administrative structures, education and training programs. With respect to professional qualifications obtained before harmonisation, Slovakia should introduce measures to ensure that all its professionals can, as of accession, meet the requirements laid down by the directives.

In particular, a general framework for the recognition of foreign professional qualifications has to be established. To achieve alignment with the general systems directives, and certain sectoral directives, much work remains to be done. An inventory of bodies authorised to take decisions under the general systems directives still needs to be completed. Legislative alignment on health care workers is lagging. It is important that the proposed amendment to the Act on Advocacy removes current restrictions on the right to practice for EU lawyers and does not create new ones. The Centre for Equivalence of Diplomas has to be designated as the contact point and

national co-ordinator for the general system directives. A clear distinction between academic and professional recognition is needed.

Measures must be adopted to ensure that there are no provisions in Slovak rules that contradict Community rules, in particular with respect to nationality, residence or language requirements. Further work is needed to ensure that Slovak legislation is aligned with the *acquis* on the free movement of workers. Concerning future participation in EURES, training efforts should also be continued, especially with regard to language training.

As for the future co-ordination of social security systems, further work to develop the necessary administrative infrastructures is needed. Institutional capacity needs to continue being strengthened so as to enable Slovakia to apply the *acquis* on co-ordination of social security. The entry into force of an agreement signed with the Netherlands on social security should facilitate Slovakia's compliance with the regulations from accession, as they normally rely on the same principles as the social security co-ordination regulations and this familiarises the administration with these procedures.

Chapter 3: Freedom to provide services

Since last year's report further progress has been achieved, mainly as regards improving the performance of financial services.

In the field of the **rights of establishment and the freedom to provide services**, further progress can be recorded. The amendment to the Small Traders Act entered into force in September 2001 stipulating that EU economic operators will neither have to be registered nor have to possess a residence permit and will thus benefit from national treatment. The amendment to the Commercial Code adopted by the Parliament in October 2001 and coming into force on January 2002 will ensure that residence is no longer required for EU nationals prior to as well as after registration in the commercial register. The same amendment will remove the requirement for an EU company to have an "organisational unit" (branch or agency) in Slovakia from the day of the entry into force of the Treaty on Accession.

Further progress was achieved in the field of **financial services**, and in particular in financial supervision legislation. An amendment to the Act on the National Bank of Slovakia (NBS), which entered into force in May 2001, established the independence of the Central Bank and reinforced its supervisory power over the banking sector. Banking supervision is thus no longer under the control of both the NBS and the Ministry of Finance. The new Act on Banks adopted by the Parliament in October 2001 contained further steps towards alignment of banking legislation and organised banking supervision on an individual as well as on a consolidated basis.

In the *investment services and securities* area, a new Stock Exchange Act which came into force in November 2000, included a tightening up of listing requirements.

The Act on obligatory contractual *insurance* against civil liability in respect of the use of motor vehicles was approved by the Parliament in September 2001. As from January 2002, this Act abolishes the monopoly of the Slovak Insurance Company. Indeed, it defines general listing requirements so that henceforth other insurance companies may be licensed to offer insurance protection for civil liability in cases of motor vehicle damages. In the meantime, the Slovak

Government started the privatisation of the Slovak Insurance Company by launching an ad hoc invitation for international tender bids in June 2001.

In November 2000, the Financial Market Authority responsible for the supervision of the *insurance and capital markets* commenced operations.

Concerning the **protection of personal data and the free movement of such data**, Slovakia has advanced in implementing the Act on the protection of personal data in information systems. The Government and the Parliament approved the annual report from the State Supervisory Office for Personal Data Protection in December 2000.

Implementation of the directives on **information society regulations** has progressed with the entry into force of the Governmental Ordinance on the procedures for exchange of information on technical regulations and standards in July 2001.

Overall assessment

Overall, despite the considerable alignment with the *acquis* achieved, there is still important legislative work to be completed, and administrative capacity, particularly as regards financial services supervision, needs to be reinforced.

In the field of rights of establishment and freedom to provide services, there are still provisions in Slovak law with discriminatory effects against all non-Slovak nationals. Although the requirement of Slovak nationality for authorised architects and engineers was eliminated in August 2000, there still exists requirement for other professions and positions in the field of gambling. On the other hand, Slovakia has brought its banking legislation closer to alignment with many of the requirements enshrined in EC banking directives governing the areas of minimum capital, licensing requirements, supervision on an individual and consolidated basis, internal control requirements, exchange of information between financial supervisory bodies and capital adequacy rules. Particular attention should now be given to legislative provisions for transposing the *acquis* relating to the deposit guarantee scheme and the schedule for meeting the EC minimum level of guarantee; the deposit guarantee scheme should be structured in such a way that it will, after accession, be able to cover foreign branches of Slovak banks.

Concerning the insurance sector, the approval of the Act on the contractual insurance of motor vehicle third-party liability brings the operation of the insurance market in Slovakia closer to community standards.

Little progress has been achieved in the investment services and securities field. The investment services, capital adequacy and collective investment directives have not been transposed yet. In the same vein, the legislative transposition for the securities market sector has to be completed before the accession.

As regards specifically the investor compensation scheme, the compatible legislative framework and the alignment of the levels of compensation with the EC requirements need to be completed.

Further strengthening and co-ordination of financial supervision needs to be achieved. The creation of the Financial Market Authority constituted the first step towards ensuring an efficient and well-supervised financial sector. Adequate staffing should be ensured and attention should

be paid to the need for effective supervision of financial institutions, both off-sight and on-sight. Further legislative and administrative measures will be required, particularly considering that the Resolution on the institutional organisation of banking supervision signed between the Minister of Finance and the Governor of the NBS in May 2001 did not decide whether the integrated supervision of capital markets, insurance companies and credit institutions would be performed by the NBS or by some other institution.

Concerning the State Supervisory Body for Personal Data Protection, the degree of independence of the Commissioner for the protection of personal data, who is currently appointed and removed by the Government, should be strengthened. This body has started to play a more active role, carrying out not only registrations, but also announced and unannounced inspection visits. However, to further implement the *acquis* in this area, will require the recruitment of new staff members, and the acquisition of additional premises and technical equipment. Furthermore, legislation in this field needs to be brought fully in line with the directive on the protection of personal data and the free movement of such data has not yet been transposed and a significant number of operators are not registered.

Concerning the implementation of information society regulations, the directive on the community framework for electronic signatures needs to be transposed.

Chapter 4: Free movement of capital

Since last year's report, steady progress has been achieved in this area, especially concerning capital movements and the fight against money laundering. On payment systems, progress was limited.

In the field of **capital movements and payments**, most long-term capital inflows were liberalised. Effective from January 2001, both an amendment to the Slovak Foreign Exchange Act and a Finance Ministry Decree implementing certain provision of the Foreign Exchange Act have implemented further liberalisation measures.

From January 2001, non-residents having their seat of business in the European Union or in the OECD countries and having established an organisational unit in Slovakia can acquire real estate needed for carrying out their business. The new Stock Exchange Act, effective from November 2000, removed the limitation for non-resident participation in the equity capital of the Stock Exchange. In addition, from January 2001, the State's compulsory participation in companies operating betting games in casinos was abolished and the restriction on participation of foreigners in companies operating consumer lotteries was removed. The new Act on Banks, adopted by Parliament in October 2001, sets out transparent criteria for the acquisition of holdings in banks. As regards transactions in securities and access to financial loans, as of January 2001, granting and accepting short-term financial credits and the provision of guarantees with a maturity under one year does not require Foreign Exchange approval. The authorisation requirement was also dropped for residents issuing Slovak bonds abroad with maturities shorter than one year. A new supervisory authority, the Financial Market Authority, covering the insurance sector and capital market, has been in place since November 2000 (*see also Chapter 3 - free movement of services*).

Concerning the *acquis* on **payment systems**, in February 2001, the National Bank of Slovakia approved the strategy for the introduction of the Real Time Gross Settlement System in the Slovak payment system infrastructure.

On **money laundering**, Slovakia has made some progress by implementing the new law adopted last year. The Financial Analytical Unit, established within the Financial Police Office of the Police Corps, is now involved each time a financial institution identifies an unusual operation/transaction on an anonymous account. Enforcement records, available for 1999 and 2000, show that the number of investigations of illegal financial transactions doubled from 1999 to 2000, leading to an increasing number of prosecutions.

Furthermore, the aforementioned new Act on Banks imposes the obligation on banks of examining the ownership of funds used by clients for every transaction exceeding €2 100. In addition to the abolition of the anonymity of banking and other financial products and following amendments to the Civil Code and Securities Act effective from July 2001, it is no longer possible to open saving books or issue other deposit instruments in bearer form in Slovakia.

Overall assessment

Although Slovakia has considerably advanced in general, further efforts are still required to achieve full compliance with the *acquis*, notably on short-term capital movements, functioning of payment systems and in relation to the fight against money laundering.

As for short-term capital movements, Slovakia has confirmed its timetable for the elimination of remaining restrictions.

Attention should be paid to the abolition of remaining restrictions on investment by insurance companies in foreign securities as well as the progressive removal of restrictions on other institutional investors. On inward direct investment, the specific issues of the elimination of certain restrictions on licensing in the energy sectors and residual issues on foreign participation in companies operating lotteries and other similar, games will need to be addressed in the period ahead. Liberalisation of investment in air carriers is conditioned by the application of the EC regime in this area, i.e. on accession or in conjunction with any prior air transport agreement. As far as natural persons are concerned, present legislation restricts the acquisition of real estate by non-residents. Certain restrictions remain concerning the acquisition of non-agricultural or forestry land.

As part of the privatisation process, the government has to continue to take significant steps forward on the path to opening up State-owned companies and financial institutions to foreign participation with transparent procedures.

In the field of payment systems, Slovakia has not yet transposed the directives on cross-border credit transfers and on settlement finality, making substantial efforts necessary to fully implement the *acquis* in this field. Administrative capacities should be reinforced in that area by introducing effective procedures for handling customers' complaints and for the settlement of disputes between banks and customers on cross-border credit transfers.

On money laundering, it is of paramount importance for Slovakia to effectively abolish all existing anonymous accounts and to take all measures necessary to comply with the Financial

Action Task Force recommendations. Furthermore, criminal responsibility for legal entities has still to be introduced.

The newly established Financial Market Authority supervises the insurance and capital markets. The National Bank of Slovakia exercises prudential supervision of credit institutions. Some residual powers remain with the Ministry of Finance in relation to specialised financial institutions. These financial supervisory authorities should strengthen their mutual co-ordination in the application and enforcement of legislation in the capital markets, banking and insurance sectors.

Chapter 5: Company Law

Since last year's report, Slovakia has made significant progress under this chapter, mainly as regards the company law directives, and industrial property legislation.

In terms of alignment in the area of **company law**, a number of amendments to the Commercial Code aimed at implementing the 1st, 2nd, 3rd, 6th, 11th and 12th company law directives were adopted by Parliament in October 2001, most of which will enter into force in January 2002. The Slovak commercial register has been accessible on-line since the beginning of the year and this represents an important step forward for Slovakia, although further steps are required in terms of accessibility and disclosure of data on companies listed in the commercial registers. In *accounting law*, no particular developments can be reported.

In the field of **industrial and intellectual property rights**, a new *patent law* was adopted in October 2001 which is aimed at alignment with the *acquis*. This law includes provisions on the European patent, biotechnological inventions and supplementary protection certificates for medicines and plant protection products, although these will only enter into effect in July 2002, when Slovakia accedes to the European Patent Convention. No progress was made as regards adoption of amendments to the *trademark law*.

As regards the **fight against piracy and counterfeiting**, a law on measures relating to the import, export and re-export of goods that violate certain intellectual and industrial property rights entered into force in July 2001. Statistics show that in 2000 9 persons were investigated for trademark violations, of whom 1 was sentenced. In relation to copyright violations, 39 persons were investigated, of whom 22 were sentenced.

The amendment to the Slovak Constitution, adopted in February 2001 (*see section B.1.*) should facilitate the application of the Brussels and Rome Conventions as of accession without the need for modifications to national legislation.

Overall assessment

The legislation adopted by the Slovak Parliament in October 2001 significantly improves the overall situation under this chapter. The comprehensive amendments to the Commercial Code adopted in October 2001 should provide for the gradual alignment in the period up to January 2003 with all Company law directives. Although the on-line availability of aspects of the Commercial Register is welcome, further steps are required to increase efficiency, transparency and allow fuller public access. Improvements could also be made in relation to company registration, which is reported by entrepreneurs to be a lengthy and cumbersome process.

Accounting law is largely in line, although further amendments to the 4th and 7th accounting directives are required. Slovakia has established a number of working groups under a National Steering Commission responsible for the alignment process in the accounting area.

Slovakia will be in a position to incorporate the Rome and Brussels conventions on accession. Slovakia has ratified the two 1996 WIPO Treaties.

In the field of intellectual and industrial property rights (IPR), patent legislation adopted in October is aimed at fully aligning with the *acquis*. Copyright legislation is largely in line with the *acquis*, but delays have been occurring in the preparation of the envisaged Act on Trademarks. Slovakia will have to fully implement the EC Directive on the legal protection of designs, the EC Directive on copyright in the information society and the resale right Directive.

As for administrative capacity, efforts to improve the institutional framework have been vindicated by Slovakia's invitation to accede to the European Patent Convention. Further improvements could be made, however, such as reducing registration times for trademarks. As regards IPR infringements, some difficulties with enforcement persist, with lengthy court proceedings being a particular problem. Specialised training in IPR issues for judges will need to be continued. Awareness of the enforcement situation at the ministry in charge of copyright issues appears to be poor.

Although an Act on measures related to the import, export and re-import of goods violating certain intellectual and industrial property rights has entered into force, training of enforcement authorities (customs officers, police and judiciary) and effective border control require particular attention in order to create a coherent enforcement system in Slovakia. Statistics show that in the first quarter of 2001, only one seizure was made by customs involving 2026 counterfeit CDs. This is unlikely to represent the true extent of the problem. Appropriate strengthening of administrative and judicial bodies involved in all areas of IPR should continue to be pursued across the board, so as to ensure implementation of the relevant laws in all fields of industrial and intellectual property protection and adequate co-ordination between the authorities involved.

Chapter 6: Competition Policy

Legislative progress has been made in both areas of competition policy over the reporting period, though this has not been matched by any significant progress in enforcement practice in the State aid field.

In the **anti-trust** area, Slovakia has continued to make good progress. In May 2001 an amendment to the Protection of Competition Act entered into force which takes account of recent Community developments in the anti-trust field and further strengthens the independence of the Anti-Monopoly Office. Also in May 2001, the Anti-Monopoly Office issued two decrees covering merger notifications, and the calculation of turnover.

In terms of enforcement, the Anti-Monopoly Office in 2000 adopted 201 decisions, of which 29 concerned agreements restricting competition, 33 abuse of dominant positions, and 139 mergers. Of these, 10 decisions (including 5 attracting fines) prohibited vertical or horizontal restrictive agreements. Additionally, in 3 cases abuse of dominant position was proved and sanctioned. As for merger decisions, there were 4 conditional approvals and 1 prohibition.

In the **State aid** field some progress has been achieved. In October 2001 the Slovak Parliament adopted amendments to the Act on State Aid. These amendments are aimed at further alignment with the *acquis*, and include new rules for aid for employment and training, regional development and SMEs, as well as the sensitive sectors. Slovakia also submitted its proposal for a regional aid map. A State aid report for the year 1999 was published early in 2001.

The State Aid Office is beginning to develop an enforcement record, with 53 decisions adopted in the course of 2000, all of which were approvals of individual aid. No aid schemes have been approved at all, as there is a tendency to consider all forms of aid on a case-by-case basis, rather than to assess the framework schemes. Following audits by the Government Office and Ministry of Finance, the Slovak Cabinet proposed to Parliament in August the recall of the Director of the State Aid Office. The future of the State Aid Office as a whole also looks uncertain at the moment, as the possibility of its incorporation or merger with the Anti-Monopoly Office is being considered.

Overall assessment

The legislative framework for competition policy in Slovakia is largely in line with the *acquis*. However a competition discipline akin to that of the EU still needs to be further developed, especially as regards State aid, where administrative capacity needs strengthening and enforcement remains sketchy and less than transparent.

The Slovak Act on the Protection of Competition of 1994, as amended in 2001, is largely compatible with the *acquis*, covering the main principles of Community anti-trust rules on restrictive agreements, abuse of dominant position and merger control. Secondary legislation on block exemptions is still outstanding, although preparatory work on this has started. In terms of administrative capacity, the Anti-Monopoly Office is already well established. In 2000 the Office had some 68 staff, of which two-thirds were engaged in enforcement activities and management. The enforcement record of the Office appears satisfactory, although a more deterrent sanctioning policy is required. Priority should be given to those cases which concern the most serious distortions of competition. As a result of its increasing workload the Office itself sees the need for an increase in overall staff numbers.

As regards State aid, the recent amendments to the Slovak State Aid Act, yet to enter into force, are understood to incorporate substantive rules on most areas for which there are specific secondary Community regimes, including the sensitive sectors. These amendments aim to bring state aid rules largely in line with the *acquis*. Some discrepancies remain, however, as the provisions of the Act provide only for a summary of the corresponding EC State aid *acquis*. The role of the State Aid Office vis-à-vis aid awarded under other laws (e.g. the Law on Industrial Parks - *see also Chapter 15, Industrial Policy*), or by regional and local authorities, should be strengthened.

In terms of administrative capacity, the State Aid Office has been operational since May 2000, with a total staff of 28, 17 of whom are involved in enforcement activities and management. While the Government has approved an increase in staff numbers up to 45 for 2001, it must be stressed that overall numbers are less important than the recruitment, retention and on-going training of competent and fully operational members of staff.

As regards the fledgling enforcement record, it does not appear that the State Aid Office has been routinely consulted on all relevant State aid matters. Co-operation between the aid providers including the Ministry of Finance - to which the State Aid office is currently subordinate - and the State Aid Office itself must be strengthened to enable the State Aid Office to fulfil its role satisfactorily. Therefore the Slovak authorities will have to ensure that all aid grantors consult the State Aid Office systematically, and well in advance. An adequate notification system still needs to be fully established. As to the State Aid Office itself, it sometimes appears as if a more in-depth analysis of aid cases could have been carried out. The State Aid office should devote more attention in the future to the scrutiny of aid schemes and the privatisation process, and to the alignment of existing aid schemes.

It is particularly important that all currently available measures to encourage inward investment, including the recently adopted investment incentives law (*see also Chapter 15, Industrial Policy*), are implemented fully in line with EC State aid principles. Although the investment incentives law was recently amended to ensure its compatibility with the *acquis*, similar incentives (such as in particular under Article 35(a) of the Income Tax Law) are neither in line, nor monitored by the State Aid Office.

The quality of the recent State aid reports has been satisfactory.

Chapter 7: Agriculture

Since last year's Regular Report, except in the veterinary sector, Slovakia has made, little progress in terms of transposition and implementation of the relevant *acquis*.

While the share of agriculture in gross value added stayed at the same level as in 1999, accounting for 4.5 %¹⁵, employment in agriculture continued its downward trend (6.7 % in 2000, 7.4 % in 1999)¹⁶.

The temporary safeguard measures on exports of certain cereals, in the form of export quotas, which were introduced last year, were extended and are due to run until 31 December 2001. Furthermore, a WTO safeguard measure for imports of sugar, in the form of a tariff quota, was introduced as from May 2001 (*see section A.b - Relations between the European Union and the Slovak Republic*).

In 2000, EC imports of agricultural products originating in Slovakia decreased by 1 % to € 92.3 million.¹⁷ EC exports to Slovakia increased by 21 % to €312 million. The trade balance in favour of the Community amounted to €219.7 million compared to €164.3 million in 1999. The most important product groups in terms of EC imports from Slovakia are prepared feed (17 %) with an increase of 14 %, dairy products (15 %) with an increase of 16 % and oilseeds (14 %) with a decrease of 54 %. As far as EC exports to Slovakia are concerned, the most important sectors are prepared feed (14 %) with an increase of 15 %, fruit (12 %) with an increase of 1 %, cereals (8 %) with an increase of 348 %, as a consequence of shortages due

¹⁵ The source for agricultural statistics is EUROSTAT unless otherwise specified.

¹⁶ Eurostat Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture.

¹⁷ Uruguay Round definition of agricultural products, figures taken from EUROSTAT COMEXT (see U.E. 12/15: Commerce des Produits Agricoles 1988-2000, 1 Partie D.G. AGRI/A.2 Analyses quantitatives, prévisions, statistiques, études, 2001, p. 10-57 et 86-89)"

to drought, raw hides and skins (7%) with an increase of 49% and miscellaneous preparations (6 %) with an increase of 11 %.

Horizontal issues

Since last year's Regular Report little progress can be reported with regard to the implementation of measures related to *the European Agricultural Guidance and –Guarantee Fund* (EAGGF).

The Slovak Paying Agency, which was established as a budgetary organisation reporting directly to the Minister of Agriculture, enlarged its activities and changed its name to the SAPARD Agency. The SAPARD Agency currently employs 66 people, including the employees at the eight regional units. The Commission approved the Slovak SAPARD Programme for Agriculture and Rural Development in November 2000. The Multi-annual Financing Agreement, which sets out the rules for implementing SAPARD, and the Annual Financing Agreement, which sets out the Community financial commitment for Slovakia for 2000, were signed in March 2001. A monitoring Committee has been established under the Managing Authority for the monitoring of the SAPARD programme. The Monitoring Committee adopted its rules of procedures and gave a positive opinion on the proposed monitoring indicators (*see section A.b – relations between the European Union and Slovakia*).

No significant progress has been achieved as regards the *Integrated Administration and Control System (IACS)*. Slovakia has just drawn up a strategy for the implementation of this system. For the moment, there is no system for the administration and control of payments similar to IACS in Slovakia. Only records of privately owned plots and a digital system containing information on qualitative soil parameters for use in land valuation are available in the Slovak database. First steps towards setting up the geographical information system, involving the preparation and processing of orthophoto maps, are underway.

As regards *trade mechanisms* and *quality policy*, no significant progress can be reported.

With regard to the implementation of the *farm accountancy data network system (FADN)* Slovakia has established a National Commission for the FADN in line with the relevant *acquis*.

Common Market Organisations

Progress can be reported on Slovakia's preparation for the establishment of a proper market information system. A new bulletin monitors the price developments for the most important commodities on foreign markets and it is planned to extend its coverage also to the Slovak market.

Slovakia has adopted the Act on Common Market Organisations for certain agricultural products. However, little progress can be reported in adopting of specific regulations organising the various markets covered by the *acquis*. Slovakia has adopted a Government Order concerning labelling and quality requirements for alcohol and spirit drinks. Vineyard registration has started in a sample wine-growing area. Slovakia has harmonised its legislation on quality requirements for the quality of fruit and vegetables with the relevant EC and UN/ECE standards. These requirements have been transposed in the Food Code, which entered into effect in October 2000.

Rural development and forestry

Limited progress can be reported in this field. However, it should be highlighted that only agri-environmental measures are compulsory from the *acquis* point of view. Slovakia has adopted an Act amending the Agriculture Act of 1998 which lays down agriculture and rural development programmes prepared in co-operation with the EC and specifies beneficiaries for the provision of assistance. Secondary legislation on agriculture and rural development programmes, implementing this Act, has been put in place.

Veterinary and phytosanitary issues, including food safety

Since last year's Regular Report considerable progress can be identified with regard to the legislative alignment in the **veterinary sector**.

A series of Regulations implementing the Act on Veterinary Care have been adopted and entered into force; they deal with matters including Food Hygiene, Border Inspection Posts, Drugs and Sanitary Aids, the Conditions for the Preparation, Placing on the Market and the use of Medicated Feeding stuffs and Animal Health. However, these Regulations are not fully harmonised with EC legislation.

With regard to *animal welfare*, legislation setting rules on animal welfare during transport has been put in place.

Slovakia has aligned itself with the *acquis* in the area of *identification and registration of animals* for cattle. Legislation on the Breeding of Farm animals relating to labelling, identification and maintenance of the central register for cattle as well as to checks on livestock has been put in place.

In the area of *animal waste treatment* Slovakia has substantially aligned itself with the *acquis* on the performance of veterinary rendering activities. In the area of *animal disease control* Slovakia has put its system of reporting infections largely in compliance with EC requirements. Slovakia is prepared to deal with all infectious diseases on the World Organisation for Animal Health list A in line with EC criteria. Routine vaccination against classical swine fever has been prohibited since 1 January 2001. The rules on the protection against zoonoses have been harmonised. The plan for residue control based on the principles of EC legislation has been put in place.

Regarding *imports of live animals and animal products from third countries*, Slovakia has adopted a Decree on veterinary protection of the State territory which, together with the Act on Veterinary Care creates the legislative framework enabling the transposition of EC veterinary legislation for imports from third countries. However, proper implementation of this legislation needs to be ensured.

Slovakia has made further steps with regard to strengthening the administrative capacity in the veterinary field. Two State Veterinary Administration branches have been established in Bratislava and Zvolen and equipped with the technology for BSE diagnosis. These branches are already operational. Slovakia has signed an agreement on implementation of the ANIMO system which establishes an information network concerning trade in animal products and live animals, at four ANIMO units, namely the State veterinary Administration, Vysné Nemecké, Bratislava – airport and port as well as Cierna nad Tisou border inspection posts.

No progress can be reported with regard to completing the establishment of the Border Inspection Posts at the future EU external borders.

In the **phytosanitary sector**, some progress has been made since last year's Regular Report. An amendment of the Phytosanitary Care Act relating to harmful organisms and to plant protection products has been adopted. With regard to the administrative capacity in the phytosanitary sector, the staff of the Central Control and Testing Institute has been strengthened by 10 additional employees.

Slovakia produced a Food Safety Strategy, which contains a clear state of play of the present administrative capacity and of new regulations recently adopted. However, it provides only limited information on detailed timetables for the alignment with the *acquis*. The paper states that EC measures in the area of Public Health are mostly aligned via two implementing regulations, one on requirements for ensuring food safety and wholesomeness of animal products, and one on general and special hygienic conditions for establishments (*see also Chapter 1 - Free movement of goods*).

Slovakia has achieved good progress towards the compliance of its legislation on Transmissible Spongiform Encephalopathy (BSE) with the *acquis*. In the context of the Geographical BSE Risk Assessment, Slovakia has been classified in group III. Slovakia has started an extensive programme of testing cattle for BSE. The State Veterinary Office has issued an Order concerning the definition of Special Risk Materials. In the meantime, a first BSE case was officially confirmed by the Slovak authorities in October 2001.

Overall assessment

Slovakia is still lagging behind in aligning with the agricultural *acquis*, with the exception of the veterinary sector. The weaknesses pointed out in the 2000 Regular Report can be confirmed.

Slovakia has, so far, only prepared strategy documents with regards to the structure of its agricultural policy over the coming years, namely the "Agrarian and Food Policy Concept", the "Forestry and Water Management Concept" and the "Agricultural Sector Information Strategy". There is a need for Slovakia to take urgent action to speed up its preparation for the implementation of the *acquis* upon accession. Administrative capacities, chiefly of the Ministry of Agriculture need to be strengthened.

As regards **horizontal issues**, progress needs to be made with regard to the implementation of measures relating to the *European Agricultural Guidance and –Guarantee Fund* (EAGGF). Slovakia needs to complete all steps necessary to prepare national accreditation of the SAPARD Agency, before any Community funds can be released to its SAPARD programme.

Slovakia needs to accelerate its efforts with regard to preparation for the establishment of the *Integrated Administration and Control System* (IACS) by the date of accession. Slovakia has only initiated the preparatory work on the compilation of special registers (vineyards, hop gardens, intensive orchards). A detailed strategy including a precise timetable for establishing the necessary elements of a functioning IACS needs to be drawn up.

As regards the implementation of **Common Market Organisations**, Slovakia needs to complete its legislation organising the various markets covered by the *acquis*. It also needs to

make operational the Slovak Agrarian Marketing Organisation, which should be focused on support for the sale and marketing of agricultural commodities. Slovakia needs to complete the registration and inspections of wine growing model areas in line with the EC requirements and to start the registration of vineyards across the whole territory. A central laboratory for the inspection of milk and dairy products needs to be set up. Market Intervention systems in line with the *acquis* are not yet established.

In the area of **Rural Development and Forestry**, Slovakia needs to carry out delimitation of Less Favoured Agricultural Areas (LFAs), in line with EC criteria. Progress needs to be made as regards the introduction of agro-environmental schemes.

In the **veterinary** field, Slovakia has undertaken important steps with the view to the alignment with, and implementation of, EC legislation. It needs, however, to make further progress in adopting and implementing legislation in order to achieve full alignment. In particular, the amendment to the Act on Veterinary Care, which will constitute a legal basis to pursue transposition of the *acquis*, needs to be adopted.

With regard to veterinary control in the internal market, the introduction of the movement control system needs to be completed and the Central Register for Cattle needs to be enforced. Furthermore, the register of breeding data needs to be put in place. No progress has been made with regard to the establishment of the veterinary and phytosanitary controls at the future external borders of the EU. Slovakia needs to make substantial efforts to complete construction of the Border Inspection Post (BIP) in Vysné Nemecké and to start the construction of the remaining BIPs.

In the **phytosanitary** field there is a clear and urgent need for Slovakia to speed up the alignment process and to strengthen administrative capacity in order to be able to guarantee a full and correct implementation of the *acquis* by the time of accession. Cornerstones of the Community plant health (harmful organisms) system, such as the registration of producers and the use of plant passports, need a considerable preparatory period prior to accession. It is particularly important that both the inspectors and the producers/traders concerned get acquainted with the system in order to guarantee effective implementation of the *acquis* in this field. It is equally important for Slovakia to ensure that all inspection bodies concerned, including Border Inspection Posts, have been established and have the necessary legal basis to correctly implement the *acquis*.

The food -processing establishments need to be upgraded so as to ensure that they respect EC **food safety** standards.

Chapter 8: Fisheries

Some progress in legislative terms can be reported in this sector.

With regard to **resource management, inspection and control**, Slovakia has adopted secondary legislation through which Chapter III of the Food Code concerning fish and fish products has been put into effect. This chapter encompasses provisions concerning sizes as well as export and release into circulation of fish products. It also contains provisions concerning the market policy, such as classification and technical specifications in the area of quality control. The Order of the Ministry of Agriculture on the Veterinary Protection of State Territory, has

been adopted, covering among other topics the administrative and control requirements in the area of import and transit of products. Slovakia has made progress in the area of structural policy by adopting the amendment to the Act on Agriculture, which covers **structural actions** in fisheries.

No particular developments are to be reported in the areas of **market policy**, **State aid** to the fisheries sector, and **international fisheries agreements**.

Overall assessment

Slovakia's fisheries policy is partly aligned to the *acquis* in this area. Further progress is needed both as regards the legislative transposition and as concerns administrative capacity necessary to implement the Common Fisheries Policy.

Further alignment should take place by amending and implementing the Fisheries Act and the Veterinary Care Act. Following the introduction of legislation for controlling imports of fish and fish products, special attention needs to be attached to training of the officials in charge of these controls and to their practical implementation. The legal basis for setting up an Agricultural Agency is still to be established. This Agency is necessary with a view to implementing the market policy and structural actions.

With regard to the administrative capacity, the Fisheries Department is under the responsibility of the Ministry of Agriculture and currently employs two persons.

Slovakia needs to strengthen the administrative capacity of the institutions involved in this sector, especially as regards control of Common Fisheries Policy requirements upon import and transit. In particular, enforcement of new legislation will require the recruitment of qualified staff.

Since Slovakia is a landlocked country, parts of the *acquis* on fisheries are of lesser importance for this country.

Chapter 9: Transport policy

Further progress has been made by Slovakia in aligning with the *acquis* in this area.

Regarding **Trans-European Transport Networks**, the Slovak Government approved in March 2001 the "National Regional Development Plan for the 2001-2006 Period", concerning the plans in the field of transport infrastructure development of individual regions of Slovakia including financing. The Slovak Government approved in February 2001 a Resolution on the "New Project for the Construction of Motorways and High Speed Roads". At the beginning of 2001, approximately 45% of the total planned motorway and high-speed road network was in operation and 8% was under construction. In May 2001 Slovakia signed an agreement with European Investment Bank, which granted a loan of €34 million EUR for the construction of an 8 km length motorway section between Bratislava and Banska Bystrica.

In relation to **land transport**, some limited progress has been made. As regards *road transport*, in December 2000, the Slovak Republic signed the INTERBUS agreement. New legislation on vehicle registration and corresponding certificates entered into force in January 2001. Concerning road user charges, 15-day vignettes have also been available since January

2001 for vehicles with a total weight more than 3.5 tonnes. The privatisation process of 17 regional bus companies belonging to Slovak Bus transportation has started. As concerns *rail transport*, the Slovak Government approved by Government Resolution in October 2000 the Project for the transformation and restructuring of Slovak Railways (ZRS), setting the conditions for the liberalisation of the railways transport sector. New legislation, aimed at aligning with the *acquis*, separating the railroad (infrastructure, operation of the railroad) from the provision of rail operator services (operation of transport by rail) entered into force in July 2001. ZSR will for the time being remain the main operator of cargo and passengers transport. It will consist of the top control body, the General Directorate, and four divisions. There is no further progress with the establishment of the Railway Regulatory Body to be reported. Nevertheless two bodies have been created: the Slovak Railways Body and the Slovak Road Administration Body.

In January 2001, the Slovak Government approved the "Concept for the development of Combined Transport with an outlook to 2010". New legislation on *combined transport* entered into force in November 2000. Concerning *inland waterways*, the Act on Inland Navigation transposing the provisions on access to the occupation and mutual recognition of diplomas entered into force in January 2001. Several binding implementing regulations for the Act on Inland Navigation entered into force during the reference period.

Only limited progress has been achieved in the field of **air transport**, as far as the implementation of the Joint Aviation Requirements (JAR) is concerned, with the transposition at national level of a certain number of requirements. Regarding **maritime transport**, in January 2001, the Act on Maritime Navigation entered into force, covering in particular safety-related "*acquis*" such as common rules and standards for ship inspection and survey organisations, minimum level of training for seafarers (STCW Convention) and rules on pilotage of vessels in the North Sea. An ordinance on vessel equipment entered into force in July 2001 implementing Community *acquis* on marine equipment.

Overall assessment

While the overall level of alignment with the *acquis* has improved, substantial alignment is still necessary.

Efforts to complete legal alignment and strengthen administrative and enforcement capacity in road transport are needed, in particular on social legislation, including financial standing requirements for access to the profession, fiscal harmonisation and technical and safety standards, among others, with regard to weights and dimensions and tachographs. As concerns railway transport further efforts are necessary in order to allow for the implementation of the revised railway *acquis*. The Rail Regulatory Authority must be established. Although no high-speed rail system is planned in Slovakia, interoperability requirements will have to be implemented. In addition, the directive on interoperability for conventional rail should be implemented.

Concerning air transport, further efforts are needed, in particularly on air safety (implementation of all Joint Aviation Requirements), and on the establishment of an independent aviation accident investigation authority.

As regards inland waterways, Slovakia should establish an Inland Waterway Fund. Further alignment is needed in fields such as navigability licences, technical requirements, and the harmonisation of conditions for obtaining national boatmasters' certificates. Additional requirements identified within the *acquis*, such as the liberalisation of the market still need to be met.

Concerning maritime transport, although Slovakia is a landlocked country, it should complete alignment and set up the necessary administrative structures.

The administrative capacity has to be strengthened: co-operation and co-ordination between the ministries concerned should be improved, and human resources should be enhanced. Some progress has been achieved in increasing the efficiency of relevant structures, in particular by delegating particular tasks from the Ministry to institutions under its authority.

Chapter 10: Taxation

Since the last regular report Slovakia has made limited progress with aligning its tax legislation with the *acquis*. The reform of the Slovak tax administration has moved some further steps forward.

In the area of **indirect taxation**, amendments to the excise legislation were adopted in May 2001, entering into force in July 2001 and January 2002 respectively. The amendments introduce tax warehouses, the arrangements for suspending tax with financial guarantee, registered traders and authorised users of goods subject to excises, specification of the structure of the taxable transaction and tax rates. In October 2001 the Excise Duty Act was amended, entering into force in November 2001, introducing further alignment in this area. No progress was made in the field of VAT.

No progress was made in the area of **direct taxation**.

As regards **administrative co-operation and mutual assistance**, there has been some progress but much remains to be done. The Act on Tax Authorities entered into force in May 2001 and is aimed at aligning partly the Slovak legislation with the *acquis* in a number of fields. These include mutual assistance in the field of direct taxation, administrative co-operation on VAT, and mutual assistance for the recovery of claims.

Since last year's Regular Report, some further steps have been taken to reform and strengthen Slovakia's tax administration. In January 2001, the Tax Administration headquarters office was separated from the regional office in Banská Bystrica, thereby improving its capacity to plan and manage national operations. The new structure increases managerial functions at headquarters, while granting executive functions to the local offices. As of March 2001, the Tax Administration has been organised along functional lines, with separate departments specialising in the main tax administration functions at all three levels. In May 2001, the central tax directorate was granted partial autonomy.

Little progress has been made in improving taxpayer compliance. Apart from some improvement in the productivity of VAT audits, there has been little progress as regards improvement of the quality of audits and audit coverage, reduction of the high level of VAT refunds, and strengthening of collection enforcement procedures in order to stem the growth of

tax arrears. VAT refund claims increased again in 2000, while the stock of tax arrears rose to 36 per cent of total tax collection.

Overall assessment

While some achievements have been made on legislative alignment in the field of excises, this is less the case with VAT and direct taxation. Additional efforts are required, in particular as regards adjustments of VAT and excise duty rate levels. The measures taken to modernise the tax administration should be further pursued.

As regards direct taxation, action should be taken to ensure that direct tax legislation is amended to eliminate potentially harmful tax measures, and in particular preferential tax schemes, so as to comply with the Code of Conduct for Business Taxation upon accession to the same extent as current Member States. Further alignment should be pursued in the area of administrative co-operation and mutual assistance.

There is still a need to strengthen headquarters, where the lack of skilled management is a major shortcoming and an impediment to the successful implementation of reforms at the regional level. It will be important to ensure that staff are able to carry out the decision-making, monitoring and supervision of local offices which are required under the new functional organisation.

Little progress has been made with addressing some of the most critical weaknesses identified in last year's Regular Report. These include improving audit coverage and audit yields for the major taxes, VAT refund management, taxpayer compliance for large taxpayers, and tax collection enforcement. Training and human resource development should continue to be seen as a priority task, particularly in the areas of audit and tax collection enforcement.

Ensuring full operational status of the IT tax information system, its link with the customs information system and its interconnectivity with the EC systems ahead of accession should also be given priority, as little has been done in this field. Legislative amendments will be required to allow the exchange of information relating to indirect taxes.

Slovakia's tax administration is run by the Ministry of Finance, the central tax directorate with its 8 regional and 101 operational district offices (as compared to 108 last year), the customs directorate and customs offices. There are 5500 employees within the tax administration, of whom 600 work at headquarters and in the regional tax offices. The Act on Tax Authorities grants partial autonomy to the central tax directorate. However, it still lacks the competence to make strategic decisions, for example, to determine the number and location of local tax offices, to modify procedures, interpret tax laws, or redesign certain aspects of its organisational structure.

Slovakia should continue to give high priority to improving administrative capacity. The organisational reshuffling implemented in the last two years is a step in the right direction and should be further pursued.

Chapter 11: Economic and monetary union

A detailed assessment of Slovakia's economic policy in its various aspects has been given above, in the Chapter discussing the economic criteria (B-2). Therefore, the present section is

limited to a discussion of those aspects of the Economic and Monetary Union *acquis* -as defined by title VII of the EC treaty and the other relevant texts- which candidate countries should implement by accession, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

Significant progress has been achieved in this area since the last Regular Report. An amendment to the Act on the National Bank of Slovakia was adopted and came into effect in May 2001. The amended act establishes the **independence of the central bank**, thus bringing Slovak legislation in line with the requirements of the *acquis* in this area. The amendment also ensures the prohibition of **direct public sector financing by the central bank**.

Overall assessment

Slovakia will participate in EMU upon accession with the status of a country with a derogation under article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Overall, Slovakia's legislation is now in line with the *acquis* in this area, notably as regards aligning the National Bank's statutes and the prohibition of direct public sector financing by the central bank.

Slovakia has largely aligned with the *acquis* prohibiting privileged access by public authorities to financial institutions.

As regards administrative capacity, carrying out medium-term fiscal planning and fiscal reporting constitutes a matter of priority. Further strengthening of the appropriate expert departments at the Ministry of Finance will be required to ensure that there is sufficient capacity to cover issues of domestic economic policy in the EU environment.

Chapter 12: Statistics

Slovakia continued to make progress over the last year towards achieving compliance with the *acquis* in this area.

Several projects were launched such as the Farm Structure Census. They will help Slovakia to bring statistics more in line with the EC methodology. However, most of these projects need substantial financial support. As regards **statistical infrastructure**, the Statistical Office of the Slovak Republic (SOSR) is composed of a Head Office and 8 Regional Offices. Its staffing has been reinforced. The SOSR now employs around 1140 staff, of which 340 work at central level and 800 at regional level.

Concerning **classifications**, most statistics are now in line with the NACE classification.

As regards **demographic and social statistics**, the Population Census was carried out in the first semester of 2001. Data are being processed and the first results are expected in the autumn.

In the field of **regional statistics**, at the territorial unit (NUTS) II and III digit levels, data for the years 1997 to 1999 have been updated and data for 2000 became available. So far, macroeconomic data are not covered at the level of villages and municipalities.

Concerning **macro-economic statistics**, for national accounts, progress has been seen in the implementation of ESA 95 methodology.

Concerning **price statistics**, including production prices and agricultural prices, comprehensive revision of price index schemes was completed.

In the field of **business statistics**, further progress was made with setting up registers of statistical units and in harmonising them with other registers, in particular the tax register.

For **transport statistics**, the Slovak legislation is now compliant with EC rules on transport infrastructure, transport policy and the statistical survey on behaviour of transport operators in the transport market, with the exception of the statistical survey on transport of goods by road transport. As regards **agricultural statistics**, work has begun on carrying out a structural census of farms.

Overall assessment

Overall, Slovakia is well advanced in the field of statistics. Slovakia still needs to finalise legislation to comply with the principles of Community statistics. The quality and coverage of the statistics, in general, needs to be improved.

Progress is still required in some specific areas, including national accounts and external trade statistics. For national accounts, improvement is still needed in regional accounts, annual national accounts and quarterly national accounts.

Concerning external trade statistics, the INTRASTAT system, which gathers statistical data on the internal trade of all commodities among Member States, has to be implemented by the date of Slovakia's accession to the EU.

The SOSR seems adequately staffed and has appropriate competence in the implementation of the *acquis*. However, due to low wages in comparison with the private sector, the SOSR suffers from high turnover of staff. Therefore, policies aimed at improving recruitment and retention of skilled staff should be applied. Co-operation runs smoothly between ministries and local governments involved in the production and use of statistics. Data of the SOSR are available on its Internet page and are frequently updated. Adequate resources need to be ensured to further strengthen statistical capacities, including at regional level.

Chapter 13: Social policy and employment

Considerable progress was achieved in terms of transposing the *acquis* in this area, notably in the field of labour law and health and safety at work.

Substantial progress was achieved with the adoption of the new **Labour Code** in July 2001. This act aims to finalise the transposition of the Directives on collective redundancies, transfers of undertakings, written statement, European works councils, working time and protection of young people at work. According to the Labour Inspection Act, the National Labour

Inspectorate and regional labour inspectorates shall, from July 2001, discharge duties in the field of enforcement of labour law and wage regulations, as well as concerning obligations resulting from collective agreements.

Progress in transposition of the *acquis* in the field of **equal treatment for women and men** was also achieved with the adoption of the new Labour Code, which aims, *inter alia*, to finalise transposition of the Directives on pregnant workers, equal access, burden of proof and parental leave. In March 2001, the Government adopted the Concept of Equal Opportunities between Women and Men focusing on the labour market, and, public and political life as well as on family. Its implementation needs to be ensured by, *inter alia*, the provision of sufficient financial means. In February 2001, the amendment to the Slovak constitution established conditions for introducing the institution of the ombudsman, which should contribute to reducing discrimination by extra-judicial means.

Further progress can be reported in the field of **health and safety** at work. The amendment to the Act on Health and Safety at Work adopted in March 2001 aims at fully transposing the Framework Directive on occupational health and safety. It provides, among other things, the basis for issuing a number of pieces of secondary legislation. In this context the Slovak government has adopted ordinances intended to transpose the *acquis* on the minimum health and safety requirements for the use of work equipment by workers at work, for the workplace and for the manual handling of loads. Slovakia has also adopted legislation aiming at transposition of the Directives on display screen equipment and signs.

No particular developments can be reported with regard to **public health**.

Efforts continued by Slovak authorities to promote **social dialogue** at all levels. A tripartite General Agreement was not signed this year. Concerning bipartite social dialogue, the aforementioned new Labour Code provides for the establishment of works councils in undertakings where no trade unions are present. Social dialogue and number and contents of collective agreements at sectoral level continue to be limited.

After several years of decline, **employment** showed a small year-on-year increase in the first half of 2001. Despite this, unemployment showed a further small increase, as Slovakia's labour force continues to grow relatively rapidly. Slovakia had an unemployment rate of 19.2 % in the second quarter of 2001, which is very high relative to the EU average. Employment rate was 56.3 %, much lower than the EU average of 63.3 %.

Structural problems continue to persist in the labour market. Regional segmentation is very high, due to low labour force mobility and rigidities in the labour and housing markets. A National Plan of Employment for the period 2001–2002 was adopted by the Government in November 2000. Together with the Commission, a Joint Assessment of Employment Priorities in the Slovak Republic has been drawn up. The document presents an agreed set of employment and labour market objectives that should enable Slovakia to adapt employment policy in line with the requirements set out in the framework of the European Employment Strategy. The document is to be jointly signed by the Commission and Slovakia later this year.

Apart from the establishment, in September 2001, of a Management Unit of the European Social Fund in the Ministry of Labour, Social Affairs and Family, there has been little progress concerning the preparation for the **European Social Fund (ESF)**.

As regards **social protection**, the Government has taken further steps towards reforms, including the reform of social insurance, particularly pensions, and of health service financing. In December 2000 an organisational timetable for the implementation of the social insurance reform was adopted, according to which reforms will be launched between mid-2002 and mid-2003. The National Programme for the Development of Living Conditions for Citizens with Disability in All Areas of Life was approved in June 2001. Its objective is to create equal opportunities and integration of disabled citizens into the life of society.

The fight against exclusion, as laid down in art. 136 of the Treaty establishing the European Community, is part of the objectives of EU social policy. As decided at the Lisbon and Nice European Councils, policies to combat social exclusion combine commonly agreed objectives at the EU level, and national action plans. The Gothenburg European Council in June 2001 invited candidate countries to translate the Union's objectives of promoting social inclusion into their national policies.

As regards **discrimination**, no particular developments can be reported (*see also section B.1.2. – Human rights and the protection of minorities.*)

Overall assessment

Slovakia has adopted legislation aiming at transposition of a considerable part of the *acquis* in the field of social policy and employment. Further transposition and effective implementation needs to be ensured.

In the field of labour law, Slovakia has substantially advanced in the transposition of the relevant *acquis*. Transposition of the posting of workers Directive needs to be ensured. Emphasis has now to be put on strengthening implementation as well as the enforcement structures, and notably the labour inspectorates' capacity to discharge their duties. A liaison office or competent national body as required under the Posting of Workers Directive, needs to be set up. The Guarantee Fund set up last year is functioning properly.

As a result of the new Labour Code, progress has also been achieved in the field of equal treatment for women and men. The *acquis* on equal treatment in matters of social security remains to be transposed. Effective implementation and enforcement is crucial and attention now needs to be turned to developing appropriate and adequately financed information, training and institutions.

Although progress has been made in the field of health and safety, Slovakia still needs to transpose and implement important parts of the relevant *acquis*. Further efforts are needed in this respect. Particular attention must be paid to the financial impact of the implementation of health and safety legislation on undertakings. Timely and complete transposition and implementation of the relevant *acquis* must be accompanied by the effective operation of labour inspection institutions. There is a particular need to co-ordinate the supervision and enforcement of the relevant provisions on occupational health and safety. Labour inspection under the competence of the Ministry of Labour, Social Affairs and Family is carried out by the National Labour Inspectorate and 8 regional labour inspectorates, comprising 175 inspectors in total. State health supervision is carried out by the 36 State health institutes, with a staff of 50 medical doctors and 400 other employees. Training, financial resources and equipment need to be reinforced for these institutions, and an efficient public information system put in place.

In the field of public health, efforts should be continued for the development of a health monitoring system in order to obtain health data and indicators comparable with the Community health monitoring system. With regard to the surveillance and control of communicable diseases further measures should be undertaken on the background of the principles and methodology of the Community Network for the epidemiological surveillance and control of communicable diseases. In the area of tobacco Slovakia should also continue efforts in developing infrastructure for the implementation of community tobacco legislation.

As regards social dialogue, further support should be given to social partners' capacity- building efforts, in particular with a view of their future role in the elaboration and implementation of EU employment and social policy, including the ESF. Tripartite social dialogue should be further widened to economic and financial issues such as budgetary, employment and macroeconomic policies in line with developments of social dialogue at EU level. Social dialogue in the public sector also needs to be improved. Bipartite social dialogue and the introduction and development of workers' participation, information and consultation, in particular in the SMEs, needs to be strengthened. Autonomous social dialogue must be considered as a priority to ensure implementation of the Community *acquis* at local level.

Reform of the employment system and transformation of the labour market will need to be pursued with vigour. The structural problems inherent in the labour market should be addressed, and particular attention should be paid to promoting active labour market policies over passive measures in order to counteract the rise in unemployment. More extensive co-ordination should be pursued between the Ministry of Labour, Social Affairs and Family, the National Labour Office and the line ministries responsible for regional policy and preparation for the structural funds. Slovakia should further develop and implement a national employment strategy in line with the principles of the European Employment Strategy and the priorities identified in the Joint Assessment of Employment Priorities. Although a Management Unit of the European Social Fund has been established in the Ministry of Labour, Social Affairs and Family, concrete efforts are required to avoid the risk that the delays occurred endanger a proper, well co-ordinated preparation for the ESF. The relationship between the ESF unit and the implementation units within the National Labour Office and the Slovak Education Ministry should be clarified as soon as possible. Further development of training systems in this area also remains of utmost importance. It is also important that the contents of future ESF interventions is embedded in the European Employment Strategy and the fight against social exclusion.

Further efforts are needed to ensure alignment with the *acquis* on the anti-discrimination based on Art. 13 of the Treaty.

Regarding overall administrative capacity, efforts should be made to ensure that the Ministry of Labour, Social Affairs and Family, which takes the lead in many areas of social policy, has an efficient organisational structure, and adequate levels of trained staff. A strategic approach to the division of competencies with the other ministries, in particular the Ministry of Health, should be taken. Co-ordination between ministries, and with the relevant monitoring and enforcement institutions, should be improved.

Chapter 14: Energy

Further progress has been made in the field of energy during the period covered by this Regular Report.

In the field of **security of supply**, the Act on Emergency Reserves of Crude Oil and Petroleum Products, effective from June 2001, has provided the basis for increasing oil stocks towards levels sufficient for 90 days' consumption as required by the *acquis*. Currently emergency oil stocks stand at somewhat less than one third of the eventually required level.

As for **competitiveness and the internal energy market**, further steps have been taken by Slovakia in order to progressively align with the *acquis*. All future increases of energy prices will take place within the framework of the Energy Policy of the Slovak Republic, which aims gradually to increase prices to ensure that producers fully cover their costs.

Concerning the electricity sector, following the adoption of the Act on Network Sectoral Regulation in June 2001, Slovakia has decided to open up 33% of the domestic market as from 2002.

The privatisation plans (49% of shares) for the State-owned Slovak Gas Company (SPP), for the national oil company (Transpetrol), for the national electricity company (Slovenske Elektrarne) and for the distribution sector have been adopted. Privatisation of these main energy sector companies should be carried out by the end of 2001, except for that of Slovenske Elektrarne and of the distribution sector, both of which are scheduled for no sooner than mid-2002.

The Network Industry Regulatory Office has been operational since August 2001. However, at present, there is no independent transmission system operator to safeguard the functioning of the internal electricity market.

No significant progress can be reported in the field of **energy efficiency**.

In the **nuclear energy field**, Slovakia operates two nuclear power plants (NPPs), located at Bohunice and Mochovce. At Bohunice there are four units in operation: two VVER 440/230 reactors (units 1 and 2 at Bohunice V1), which have been classified as non-upgradable, and two VVER 440/213 reactors (units 3 and 4 at Bohunice V2) classified as upgradable. At Mochovce, two upgradable VVER 440/213 reactors (units 1 and 2) are in operation.

The Slovak Government decided in September 1999 that the two Bohunice V1 reactors will be closed down in 2006 and 2008 respectively. In November 2000 the Slovak Government agreed by decree the framework procedure and timetable for the decommissioning of Bohunice V1, including provisions for the socio-economic impact of the closure. In October 2001, the Grant Framework Agreement was signed at the technical level between the Slovak Government and the EBRD who acts as manager of the Bohunice International Decommissioning Support Fund.

As regards Bohunice V2 reactors, in 2001, the Slovak Nuclear Regulatory Authority requested the operator to implement specific safety improvements in various steps by the end of 2004, 2006 and 2008.

Further measures have been taken to upgrade units 1 and 2 at Mochovce NPP. The safety improvement programme, with the exception of the Post Accident Monitoring System, has been completed. As regards the unfinished units 3 and 4 at Mochovce NPP, the Slovak Government has continued to stress that neither State guarantees, nor any form of State aid, will be provided for their completion or operation.

Concerning radioactive waste management, the radioactive waste treatment centre at Bohunice has been operational for a year. The low and intermediate-level operational waste disposal facility at Mochovce has been operational for a one-year test period, and permission for full operation has been issued by the Nuclear Regulatory Authority.

Overall assessment

Overall, Slovakia has fairly well advanced in this area, in particular concerning the establishment of the legislative framework for emergency oil stocks, the preparation of the internal energy market (electricity and gas directives) and the strengthening of the level in nuclear safety. However, continuing efforts are necessary to ensure that Slovakia is in a position to comply with the energy *acquis* in the medium-term. In particular, Slovakia should continue to build up emergency oil stocks, to ensure that the necessary infrastructure is in place and to strengthen the institutional capacity of the State Material Reserves Administration.

Preparation for the internal energy market will require further concrete measures including legislation and restructuring. The independent regulatory authority established in August 2001 needs to create efficient mechanisms enabling it to carry out the functions defined in the internal energy market directives. An independent transmission system operator has to be established. Remaining price distortions should continue to be eliminated.

Concrete steps to enhance support for energy efficiency and the use of renewable energy sources should be taken as a matter of priority.

As regards the issue of nuclear energy, the European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries, including the need to respect closure commitments and dates for certain nuclear installations. In June 2001, the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. This Report contains findings on the situation and perspective regarding nuclear safety in each candidate country as well as recommendations for specific improvements. In July 2001, this report was conveyed to the candidate countries.

General recommendations of the Council Report call for all candidate countries with nuclear power plants to complete their plant-specific safety improvement programmes, and to ensure that their programmes include measures considered good practice within the European Union, particularly regarding various specified safety measures such as assessment practices, emergency procedures, feedback of experience, resources of the regulatory authority and other aspects. The report recommends all candidate countries to continue their national programmes regarding the safe management of spent fuel and radioactive waste, and regarding the safety of their research reactors.

With regard to Slovakia, the Council Report recommends seven specific measures to ensure the safe operation of the Bohunice V-1 NPP until final closure, and of Bohunice V-2 and Mochovce NPP, as well as other nuclear installations. The recommendations include an action plan for the remaining operation time for Bohunice V-1, the resources of the regulatory authority, a national emergency response plan, and other specified technical aspects such as the bubbler condenser systems and seismic qualification of the Bohunice NPP units 3 and 4 and of Mochovce NPP. In September 2001, Slovakia accepted the recommendations of the Council Report.

The Slovak Nuclear Regulatory Authority has the responsibility for fully independent supervision of nuclear safety. Its competence, including that of its staff, has been positively assessed by outside bodies. However, its financial and human resources are limited.

Slovakia will need to ensure compliance with Euratom requirements and procedures. In this respect, continued attention should be given to preparing the implementation of Euratom safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or structures operating nuclear installations or storing nuclear material. It is to be noted that Slovakia has concluded a Full Scope Safeguards Agreement with the IAEA. An Additional Protocol to this Agreement was signed in 1999.

Chapter 15: Industrial policy¹⁸

Since the last Regular Report, Slovakia has concentrated its action on bank and enterprise privatisation, and to some extent on investment promotion. Only limited progress has been made in the promotion of competitiveness and in improving policy-making and policy co-ordination.

No specific further developments can be noted regarding Slovakia's **industrial policy**, which is based on the document adopted by the government in 1999, "Elaboration of the European Union's industrial policy in the conditions of the Slovak Republic". The main objective of the policy is the promotion of industrial restructuring and competitiveness.

As concerns **investment promotion**, after extensive internal discussions and consultation with the Commission, the Government approved a Law on Investment Incentives intended to be fully in line with the *acquis*. The law, which was passed by the Parliament in October 2001, allows foreign and domestic investors investing in regions with GDP lower than 75% of the EU average to qualify for 10-year tax holidays. The initial investment required is €9.4 million (SKK 400 million), or €4.7 million (SKK 200 million) for regions having an unemployment rate above 10% (*see also Chapter 6 - Competition policy*).

In May 2001 the Parliament passed a bill on industrial parks applicable as from June 2001. Under the law, the government may cover up to 70% of the setting up costs of industrial parks, the rest being financed by local municipalities. The government has identified seven priority geographical areas.

As concerns **privatisation and restructuring** in the banking sector, after the sale of Slovenska Sporitelna (SLSP), the largest nation's bank, and of VUB, the second largest, to major European strategic investors, the banking sector is now almost completely in private hands (*see Section B.1.2. - Economic criteria*). As concerns enterprise restructuring, the government has set a tight schedule aimed at accelerating the privatisation of thirty-eight State-owned companies, for a total accounting value of approximately €5.8 billion (SKK 248 billion). In the energy sector, at the end of August 2001 the government launched the partial privatisation of SPP, the main player in the gas industry. The process of partial privatisation of Transpetrol, the crude oil pipeline operator, and of the national electricity company (Slovenske Elektrarne) also

¹⁸ Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (*see chapter 16 - Small and medium-sized enterprises*).

made progress (*see also Chapter 14 – Energy*). In June 2001, the government invited bids for the privatisation of Slovenska Poistovna, the main national insurance company.

Overall assessment

Overall, Slovakia's policy towards industry is by and large in conformity with the principles of EC industrial policy, i.e. market-based, stable and predictable.

While foreign direct investments dramatically increased last year and reached an unprecedented level, this appears to be mostly due to revenues from large enterprise and bank privatisation (revenue from the sale of the national Telecom operator accounts for nearly half of the total inflow). The government needs to continue developing a pro-active and demand-driven policy to attract new green-field investors, both domestic and foreign. The recently created Investment and Trade Development Agency, SARIO, has shown administrative weaknesses, preventing it from performing its tasks effectively.

Privatisation, especially in the banking sector, and enterprise restructuring have made remarkable progress during the last year.

The central body responsible for the formulation and co-ordination of industrial policy is the Ministry of Economy. The line ministries that are responsible for managing specific industrial branches take part in the policy-making process. Specialised implementing bodies include the Benchmarking Information Centre, the Council for Competitiveness in Industry and the National Agency for Development of SMEs (NADSME), as well as its latest report on the "State of SMEs in the Slovak Republic". While the necessary administrative bodies have been established, the administrative structure in this area still remains highly fragmented. The Ministry of Economy would need to strengthen its role as co-ordinator. Some specialised bodies, such as the Benchmarking Information Centre, lack funding and have trouble in defining and asserting their role.

The bankruptcy law is not implemented properly, due to weaknesses in the administrative capacity of bankruptcy courts. Staffing in courts should be strengthened and training of judges intensified to make the new bankruptcy provisions fully applicable and effective.

It should be noted that an important element of any industrial policy is the control of State aid, and that the compatibility of support schemes with EC rules, including the restructuring provisions of the ECSC Treaty, will have to be examined (*see Chapter 6 - Competition policy*).

Chapter 16: Small and medium-sized enterprises¹⁹

Since the last Regular Report, Slovakia has made some progress in revising its SME policy and improving the business environment.

As concerns the **SME strategy and implementing policies**, the document on the "Elaboration of the EU's Industrial policy in the Conditions of the Slovak Republic" referred to

¹⁹ Developments concerning SME policy should be seen in relation to the overall enterprise policy, including Industrial policy (*see chapter 15 - Industrial policy*).

in the previous chapter, the latest Annual Report of the National Agency for the Development of SMEs (NADSME), and its latest report on the “State of SMEs in the Slovak Republic” all identify improvements in the business environment as being the crucial issue for SME development in Slovakia.

Following up the recommendations to simplify the **business environment** made by the Council for SMEs referred to in the last year’s report, in autumn 2000 the Slovak government adopted a decree on “improving the legal and regulatory framework in support of business and investments”. The decree covers a variety of areas including the establishment of a central commercial register accessible via the Internet, the simplification of the company registration process, the introduction of a register of collateral rights for movable property, and a reduction in the formalities applying to foreigners residing in Slovakia. Most of the above measures are already in force.

Furthermore there have been changes in the organisational structure of the Ministry of Economy which now has a business environment department.

Overall assessment

Slovakia’s policy towards SMEs follows the approach promoted at EU level. The Slovak definition of SMEs is in accordance with the EC recommendation.

Slovakia recognises the need to improve its business environment and has begun to do so. The most important issues affecting the Slovak business environment have been identified and addressed by the government. The government has followed an integrated approach to implementation, the above mentioned decree being addressed to a number of different Ministries. A dialogue between the policy-making institutions and the business community has also been established.

A start has thus been made in implementing improvements, but much remains to be done. Most of the enterprise support schemes funded by the government lack critical mass. In addition, further efforts are needed to improve information to enterprises, especially in relation to the changes undertaken by the Government in business legislation.

Access to finance remains the main obstacle to the development of Slovak SMEs. The National Agency for the Development of Small and Medium-Sized Enterprises (NADSME) manages a number of financial support schemes for SMEs including micro-loans and the seed capital fund. More in general, the privatisation of State-owned banks should improve risk management and may lead to credit being more easily available to SMEs.

The central body responsible for the formulation and co-ordination of SME policy is the Ministry of Economy. The line ministries that are responsible for managing specific industrial branches take part in the policy-making process. NADSME manages most SME support projects under the supervision of the Ministry of Economy and co-ordinates a network of local Regional Advisory and Information Centres (RPICs) and Business Innovation Centres (BICs).

While the basic implementation bodies both at national and regional level have been established, the administrative structure for this sector is not yet adequately co-ordinated. The co-ordinating

role of the Ministry of Economy would need to be further strengthened. Several business organisations represent the interests of smaller business.

Chapter 17: Science and research

Further progress can be reported in the area of science and research.

The Act on the Agency for the Promotion of Science and Technology entered into force in July 2001. The Agency is financed from the State budget and will be responsible for the support of research and development tasks and the promotion of international co-operation in science and technology.

The Slovak Republic continued to be fully associated with the Fifth Framework Programme, as well as the Euratom Framework Programme.

As for other candidate countries associated with the Fifth Framework Programme, Slovakia has been granted observer status in CREST (*Comité pour la Recherche Scientifique et Technique*).

Overall assessment

The framework for Slovakia's participation in Community activities in this area is well established, but further efforts on its part will be needed, including an increase of financial support and administrative capacity if it wishes to take full advantage of the opportunities offered by Community programmes.

The results of Slovakia's participation in the 5th Framework Programme correspond to the average expectation. The National Contact Point System is working properly. Though the financial and institutional framework for its participation is well established, the reinforcement of research-related administration capabilities as well as the strengthening of research-related infrastructure is necessary to ensure successful participation of Slovakia in the Framework Programme. Greater participation of the enterprise sector, including SMEs, should be encouraged.

For the further development of the sector and for an effective integration of Slovakia into the European Research Area, it is important to increase the gross domestic expenditure on research and technological development.

The strategy of State scientific and technological policy until 2005 defines main RTD priorities and measures to identify co-operation between science and research, universities and private sector. As regards State support to science and research, the legal and institutional framework is basically in place. However, in order to complete the legal and institutional framework, required for the implementation of the strategy, the Act on Science and Technology and the Act on Slovak Academy of Sciences need to be adopted and implemented.

Chapter 18: Education and training

Progress can be reported in the area of education and training. In the reference period, Slovakia started to participate in the second generation of the **Community programmes** Socrates and Leonardo, as well as in the new Youth programme (which incorporates European Voluntary Service activities) (*see section A.b – Relations between the European Union and Slovakia*).

No further progress can be reported as regards the transposition of the **Directive concerning education of children of migrant workers**.

Slovakia has made progress with **reforming its education and training system**. In May 2001, the Government approved a strategic document entitled “Millennium – National Programme for Education and Training” which defines the primary, secondary and tertiary education systems’ objectives for the next 15 years. A gradual increase of funding for education aims at reaching 5 % of GDP in 2006.

A positive development has been the shift of the management responsibility for all schools (including vocational education and training) to the Regional offices (which are part of the State administration and operate under the responsibility of the Ministry of Interior). This is to replace the rather cumbersome system where management competencies were spread across different authorities. The Ministry of Education remains responsible for content and pedagogical matters.

In the National Plan of Employment for the period 2001–2002 which was approved in November 2000 special attention is paid to the issues of transition from school to work and the interaction of the education system with the labour market’s requirements, as well as to the development of a system of schools offering a second chance at education for such groups as young people without qualifications, the long-term unemployed, older employees and women returning to the labour market after maternity leave.

Overall assessment

Participation in the relevant Community programmes is satisfactory and the established national agencies are functioning. The Directive concerning education of children of migrant workers still has to be fully transposed and its implementation has to be ensured.

Moreover, further progress is needed in the reform of the vocational education and training system. The quality of vocational schools should be improved, in particular as regards the need to adapt the scope of vocational education to the changing needs of the labour market. A stronger collaboration between the vocational education sector (including schools and State administration), the employment services and private enterprises is required. Given the high unemployment figures in Slovakia, particularly in the mono-industrial areas, vocational training actions should be part of future integrated regional economic development programmes, where training supports related actions in fields such as productive investment, business infrastructure and other labour market reforms. Instead of creating temporary jobs for the unemployed, the system of further (continuing) education and retraining should be reinforced, and a strategy for lifelong learning needs to be developed. Access to vocational training and second-chance education opportunities should also be increased substantially for disadvantaged groups in the labour market, such as the unemployed, youth, the disabled and the Roma minority.

Chapter 19: Telecommunications and information technologies

Since the last regular report, some progress can be reported in the **telecommunication sector**.

As regards the **liberalisation of the telecommunications market**, Slovakia has advanced in implementing the relevant *acquis*. The Ministry of Transport, Telecommunications and Postal

Services issued a number of pieces of secondary legislation, based on the Act on Telecommunication, which entered into force last year.

Fixed network penetration now appears to have stabilised at around 32 per 100 inhabitants which may partly explain the relatively low penetration of Internet access. The mobile sector has maintained its quick growth to reach a market penetration of 29% of inhabitants (as compared to 20% in the last reporting period). The government's plan for the release of the GSM and UMTS spectrum has been published. The process of price re-balancing has continued, with the incumbent becoming more commercial in its approach.

In June 2001, the Government approved the Country Informational Policy and decided to join the e-Europe + initiative.

As regards the **regulatory framework**, the Telecommunications Office, established last year, is now functioning as a separate legal body with wide regulatory powers. A large number of existing telecommunications licences have been reissued under the new Act on Telecommunication. Three licences for the provision of wireless local loops (26 GHz) have recently been issued. The Office has also moved quickly to establish its new authority in relation to the pricing of telecommunications services.

As in the last year, no progress can be reported with respect to the liberalisation of **postal services**.

Overall assessment

In the telecommunications sector Slovakia is considerably advanced in transposing and implementing the relevant *acquis*.

These efforts should begin to show results well before the expiry of the Slovak Telecom monopoly at the end of 2002. The new Telecommunications Act needs to be built on to secure complete compliance with the *acquis*, particularly regarding cost-orientation, interconnection, affordability, universal service and the availability of carrier selection facilities. The Ministry for Transport, Post and Telecommunication is in the process of preparing the necessary amendment to bring the law fully into line with the *acquis*.

Action to secure compliant procedures for regulating interconnection between public networks should now be a priority so that the market can be regulated properly. Fair competition and proper functioning of the market have to be ensured. The independence of the regulatory body needs to be safeguarded and close co-operation established with the competition authority, which has also been working in the field of telecommunications. In order to achieve a proper separation of regulatory from operational functions, the Ministry of Transport, Post and Telecommunication should no longer exercise the state's property rights in the incumbent sector.

The number of staff in the Ministry of Transport, Post and Telecommunication working on telecommunications (11) remains relatively low. The Telecommunication Office currently employs 180 people and needs to ensure that it can attract and retain the services of suitable staff.

The current legislation on postal services is still not in line with the *acquis*. A new law (one is currently under preparation), and the establishment of an independent Postal Regulatory Authority, are needed to comply with EC legislation.

Chapter 20: Culture and audio-visual policy

Slovakia has made significant further progress since the last Regular Report in the field of culture and audio-visual policy.

With regard to **audio-visual** policy, the new Act on Broadcasting and Retransmission, which entered into force in October 2000 and was slightly amended in April 2001, has brought Slovakia's legislation largely into line with the Television Without Frontiers Directive.

Slovakia ratified the Amending Protocol to the Council of Europe Convention on Transfrontier Television in October 2000.

In the area of **culture**, the Slovak Republic established a Culture Contact Point in April 2001, which will facilitate future participation in Community activities in this area.

Overall assessment

On the whole, Slovakia is well advanced in this area and its legislation is largely in line with the audio-visual *acquis*. Slovakia has ratified the Council of Europe Convention on Transfrontier Television and will be bound by its amending Protocol upon the date of entry into force.

The Council of the Slovak Republic for Radio and Television Broadcasting is an independent body responsible for supervision of compliance with radio and television broadcasting legislation. The Council currently has 25 staff members (an increase of 2 persons compared to last year). Further strengthening is required, both in terms of staff and equipment, to enable the Council effectively to fulfil its duties under the new Broadcasting and Retransmission legislation. Further strengthening of administrative capacity will also be necessary in the field of culture.

Chapter 21: Regional policy and co-ordination of structural instruments

Since the last Regular Report, little progress has been achieved in preparing for the implementation of structural policies.

As regards **territorial organisation**, the Slovak Parliament adopted in the context of a Public Administration Reform in July 2001 a changed territorial organisation similar to NUTS III with 8 regions. This reform may have direct implications for the existing provisional classification corresponding to NUTS II and III.

With regard to the **legislative framework**, the Act on regional development support, specifying the eligibility conditions and the competence of the relevant state administrative bodies, has been adopted in October 2001.

With regard to **programming**, Slovakia has made progress in drafting a National Development Plan (NDP) for 2002-2006, which will serve as the basis for the establishment of the development plan required by the Structural Funds Regulations. The plan, adopted in March

2001 by the Slovak Government, sets out six priorities: development of human resources, support for competitive production activities, infrastructure, development of production and services, protection and improvement of the environment, rural development and agriculture. No decision has yet been taken as regards the structure of the final plan. In order to ensure the application of the **partnership principle**, some steps have been undertaken for example in the consultation of NGOs, notably during the whole process of preparation of the NDP.

Concerning Slovakia's **institutional structures**, the Slovak Government established in June 2001 the Implementing Agency for Regional Development which is planned to develop into a Paying Authority.

The Ministry of Construction and Regional Development is foreseen as the Community Support Framework Managing Authority and as the Managing Authority for a regional programme or regional programmes. Respective line ministries are foreseen as Managing Authorities in charge of the individual Sectoral Operational Programmes. A Management Unit of the European Social Fund has been established in the Ministry of Labour, Social Affairs and the Family.

No concrete progress has been made as regards **monitoring and evaluation** to allow Slovakia to effectively manage the funds and provide the required information for evaluation purposes. No actual action has been taken to prepare a full ex-ante evaluation, nor have structures been designated to implement other evaluation tasks.

Concerning **financial management and control**, procedures for financial control, auditing, certification of expenses and correction of irregularities are being put in place.

As regards **regional statistics**, data for 2000 have become available at NUTS II and III level.

Overall assessment

Up to date, Slovakia has little advanced in developing the necessary structures for the implementation of the Structural Funds after accession.

Slovakia's territorial organisation is based on four statistical units (similar to NUTS II) and eight regions (similar to NUTS III). Changes in the territorial organisation are still to be officially submitted to, and agreed with, the European Commission in order to become a new provisional NUTS.

With regard to programming, first steps have been taken with the approval by the Slovak Government of the National Development Plan. However, the document needs further refinement in order to meet the requirements, such as a full ex-ante evaluation, of the framework regulation on the Structural Funds. In order to match sectorial and regional approaches, inter-ministerial co-ordination and partnership need to be made much more effective and comprehensive.

Substantial progress is also needed at the level of the technical preparation of projects (project pipeline) to be co-financed by the Structural Funds.

For Structural Funds implementation at the central level proposals concerning the distribution of responsibilities have been made but these remain to be discussed in detail with the Commission.

A clear and reasonable division of responsibilities on the central level and between central and regional level must still be established.

Administrative capacity remains a matter of major concern that should be addressed without delay. Staff levels and training are key elements. Above all, the administrative capacity of the units within the ministries which will hold key responsibilities need to be significantly and urgently strengthened in order that they will effectively be able to take on the responsibility for the efficiency and correctness of the management and implementation of the Structural Funds. On regional level no structures exist which could assume in a credible manner significant management tasks in the near future.

Actual inter-ministerial co-ordination is very weak and needs to be significantly improved.

Concerning the European Social Fund Slovakia has only partially developed the necessary structures and operational arrangements. Concrete efforts are required to improve both administrative capacity and the mechanism for co-ordinating ESF interventions in the context of the European Employment Strategy and the Inclusion Process. The timely availability and functioning of an effective monitoring and evaluation system will be of crucial importance.

In the field of financial management and control, Slovakia has made some progress. Appropriate systems and procedures for financial management and control need to be established, in particular in relation to the structure of the managing and paying authorities, in order to fulfil the specific requirements of the Structural Funds regulations. The procedures for financial control, auditing, certification of expenses and correction of irregularities are being put in place. However, the internal audit departments in the ministries involved in the management of the funds have not been established as yet. The training of internal auditors should be a priority in this respect.

As to regional statistics, further efforts are necessary to bring them up to the level required for regional policy planning and programming, in particular ex-ante evaluation. Slovakia still needs to improve the system for the collection and processing of relevant statistical information for the purposes of ex-ante evaluation.

Chapter 22: Environment

Since the last Regular Report, Slovakia has made further progress in the field of environment. Schedules for transposition have been clarified and comprehensive implementation plans have been prepared. Little progress can however be noted regarding the alignment of Slovak legislation with the major EC Directives on genetically modified organisms, water, water protection and industrial pollution and risk management.

In the field of **horizontal legislation**, the Act on environmental impact assessment, which is in line with the *acquis*, entered into force in December 2000. The requirements on access to environmental information have been enacted with the entry into force of the new Law on Access to Information in January 2001.

As regards **air quality**, some progress has been achieved with the adoption in December 2000 of new legislation partially in line with the EC requirements on petrol and diesel fuels and on the

reduction in the sulphur content of certain liquid fuels. An amendment to the Law on fines for air pollution entered into force in May 2001.

Good progress has been made in the area of **waste**, with the entry into force in July 2001 of the new waste Act. The waste Act is partially in line with the *acquis* on the supervision and control of shipments of waste within, into and out of the European Community, on the disposal of waste oils, on batteries and accumulators containing certain dangerous substances, and on old vehicles.

In relation to **water quality**, there is no progress to report. In the field of **nature protection**, no progress can be reported.

As regards **industrial pollution and risk management**, transposition of the Directive on integrated pollution prevention and control has not been achieved, but its schedule has been clarified.

In the field of **genetically modified organisms and chemicals**, in June 2001 an Act on chemical substances and chemical preparations entered into force. The Act transposes the *acquis* in the fields of the classification, packaging and labelling of dangerous chemical substances, dangerous chemical preparations, restrictions on the marketing and use of certain dangerous chemicals and preparations, detergents (washing and cleaning products), evaluation and control of the risks to man and the environment of existing substances, the assessment of the risks of new chemical substances and exports and imports of certain dangerous chemical substances.

As regards **noise**, no progress can be reported.

In the field of **radiation protection** (*see also chapter 14 - Energy*), a December 2000 amendment to the Act on the protection of people's health brought Slovak legislation into alignment with EC regulations on the protection of health from ionising radiation. The Ministry of Health ensures protection from radiation at locations which are home to sources of ionising radiation through its State Health Institutes.

As regards administrative capacity, the Ministry of Environment adopted a new organisation structure, which came into force in January 2001. An Implementation Agency for environmental investment projects was established as a separate department reporting directly to the Minister, and a Division of European Integration and International Relations was also established. A limited number of extra staff was appointed to units responsible for investment projects, waste management, and nature protection.

Overall assessment

While Slovakia still needs to take substantial action to ensure full transposition and implementation of the *acquis*, it has now prepared clearly-defined schedules for transposition and comprehensive plans for implementation. Considerable investments need to be secured, also in the medium term, to ensure implementation of the environmental *acquis*.

A National strategy for Sustainable Development, available in draft, still has to be adopted. The Community requirements for monitoring and reporting of CO₂ and other greenhouse gas emissions are to a large extent in place, but further work is needed to ensure projections and

annual updating on the effects of policies and measures implemented or committed to at national level.

Slovakia should complete transposition of the *acquis*, in particular as regards genetically modified organisms, air quality, water quality, packaging and packaging waste, waste management, nature protection and industrial pollution control. Moreover, it should continue its implementation efforts in all sectors. For drinking water attention should be paid to problematic parameters like iron, manganese and nitrates, and necessary attention should be paid to removal facilities. In relation to dangerous substances, the establishment of inventories with regards to List II substances and pollution reduction programmes, as well as the building up of the necessary monitoring capacity, will be of paramount importance. For air quality, the development of an action plan and the local structures required deserve particular attention. Further legal provisions for radiation protection and their implementation need continued attention. Implementation of legislation in the waste sector, in particular the recovery and recycling rates to be attained for packaging and packaging waste need attention as well as the disposal of waste oils and the collection, sorting and recycling of batteries and accumulators. Slovakia still lacks the infrastructure necessary to deal with the recovery and recycling of waste.

The Ministry of Environment is the competent authority for the majority of environmental protection measures; it shares some responsibilities in the water sector with the Ministries of Health and Agriculture, in the area of fuel quality with the Ministries of Environment and Transport, and in the area of noise with the Ministry of Economy. Radiation protection falls under the competence of the Ministry of Health. The responsibility for nuclear safety lies within the Ministry of Economy. The legislation on chemicals is developed in co-operation with the Ministry of Economy.

Monitoring activities are to a large extent concentrated in the Hydrometeorological Institute. The Slovak Environmental Inspectorate is responsible for the enforcement of environmental legislation. The Ministry of Environment controls the State Environmental Fund, which imposes levies and supports financing primarily for public programmes, including construction of wastewater treatment plants, drinking water supply facilities and fuel-switch projects.

As regards implementation capacity, overall strengthening continues to be necessary, in particular in the fields of water, waste, and control of industrial pollution and risk management as well as within the environment inspectorates. The Ministry of Environment needs to be strengthened, in order, *inter alia*, to be able to develop the necessary implementation plans and financing strategies. Moreover, it will be necessary to ensure that the Slovak Environmental Agency, the Ministry of Economy and the Ministry of Environment have sufficient financial and human resources to implement the requirements of the *acquis*. Strengthening of the administration is also needed to develop and implement the necessary environmental projects for adoption of the *acquis* and to absorb the funds made available to Slovakia for this purpose by the EU and others.

Slovakia's environmental investments have remained stable, corresponding to just over 1.5% of national GDP in the late 1990s and are budgeted to be in the range 1.5-1.7 up to 2002. Private funding accounts for close to 80% of the total volume of investment in the environment area. Considerable investments need to be secured, also in the medium-term, to ensure implementation of the environmental *acquis*.

Chapter 23: Consumers and Health Protection

There has been some progress since the last Regular Report under this chapter, mainly in the non-safety consumer protection area.

No new developments can be reported on the **safety-related measures** covered by the consumer protection *acquis*. In the **non-safety consumer protection** area, a new act on advertising entered into force in May 2001 aimed at aligning Slovak legislation with the EC *acquis* on comparative and misleading advertising. This act introduces a new definition of advertisements, and more transparent regulation by the State authorities that supervise advertising. An act on consumer credit entered into force in October 2001. It sets out the conditions for providing consumer loans, stipulations regarding the loan contract, and measures to protect the consumer against unfair business practices in the area of consumer credit. An act on package travel aimed at aligning with the EC Directive in this area also entered into force in October 2001.

As regards administrative capacity, following an audit of bodies dealing with market supervision, the Ministry of Economy as the body responsible for co-ordination of consumer protection policy and the enforcement of the relevant legislation submitted proposals to the Government in June 2001 with the aim of improving the current system. It recommended the creation of two new institutions: an integrated **market surveillance** authority for consumer protection, under the Ministry of Economy, with controls to be carried out by the current surveillance authority, the Slovak Commercial Inspection, including regional bodies of the State administration; and a food surveillance authority, under the Ministry of Agriculture. A legislative basis will be necessary to implement these recommendations.

Overall assessment

A general consumer protection system exists in Slovakia, which includes important elements of the *acquis* such as those concerning product safety, product liability and most recently, consumer credit. However, further progress is required to achieve alignment in the area of product liability, concerning unfair terms in consumer contracts, indication of prices, time-share, and injunctions and guarantees.

Initial steps aimed at building up improved institutional conditions for market surveillance are to be welcomed. This process should be continued, so as to ensure adequate co-ordination and strengthening of the bodies involved in market surveillance activities, including consumer organisations (*see also Chapter 1 - Free movement of goods*).

There are two main umbrella non-governmental consumer organisations in the Slovak Republic: the Association of Slovak Consumers, and the Association of Consumer Entities of Slovakia. The former has been operating for ten years and provides information and consulting services through 14 Regional Consumers' Centres. The Association of Consumer Entities of Slovakia began operating at the beginning of 2000.

Consumers' awareness of their rights is developing progressively, but information is often insufficient and imprecise. A sensitive issue is how to bring claims to a successful conclusion. Currently, the relevant institutions are hampered in this regard due to a lack of funds, and the

legal impossibility of representing citizens in court. The important role played by the consumer organisations should be further promoted by the Government.

Chapter 24: Co-operation in the field of justice and home affairs

Since the 2000 Regular Report, some progress has been made in Slovakia in the field of justice and home affairs. Particular progress can be reported in the fields of border control, visa policy and police co-operation. Further progress has been registered in the area of asylum policy, the fight against money laundering and against drugs, customs co-operation and judicial co-operation. Little progress is to be reported on data protection and on migration.

As regards **data protection**, no particular progress can be reported in the reference period.

As far as **visa policy** is concerned, in June 2001 the Slovak Government approved a new Visa Policy Concept, aiming at further harmonising its policy with the *acquis*. The Slovak Republic has terminated the Agreement on a visa-free regime with Ukraine and the Agreement between the Slovak Republic and Ukraine on simplified border-crossing procedures for nationals with permanent residence in municipalities in the border areas. The Government adopted a Resolution in January 2001 according to which specific categories of persons may receive their visa free of charge or at a reduced charge, implying a partial softening of the regime. A visa requirement was introduced for nationals of Belarus and the Russian Federation with effect from January 2001.

The system of external **border control** has been undergoing substantial changes, but has still not reached EU standards. The new organisational structure of the Border and Aliens Police came into force in April 2001. This constitutes an important step towards a more coherent and Schengen-compatible border security with the creation of a more unified, specially trained and nation-wide border police organisation. In February 2001, within the bureau for the fight against organised crime, a special branch was created to combat trafficking in human beings. This unit provides sensitive information to the border police. Recent trends show that Slovakia is very susceptible to illegal immigration, but that it is still mainly a transit country towards Austria and via the Czech Republic towards Germany. The Border and Aliens Police Office of the Police Presidium is now responsible for the management of all borders in Slovakia. The Regional Border and Police Departments are directly under the command of the chief of the Border and Aliens Police. With effect from April 2001 the National **Schengen** Information System was created within the International Police Co-operation Office at the Police Force Headquarters. Slovakia adopted its Schengen Action Plan in September 2001.

No significant progress can be reported in the area of **migration**. A readmission agreement with the Former Republic of Yugoslavia, was, however, signed in August 2001.

As regards **asylum** a specialised documentation centre for the collection and analysis of information on countries of origin was set up in July 2001 as part of the National Action Plan for Asylum.

As regards **police co-operation and the fight against organised crime**, the Slovak Republic signed the UN Convention against Transnational Organised Crime in December 2000. In the field of the fight against terrorism, the sectoral crisis management concept was approved by the management of the Police Force Presidium in March 2001 and is currently being implemented

by the Ministry of the Interior. The Slovak Republic signed the Convention on the Suppression of the Financing of Terrorism in January 2001. The Office for International Police Co-operation was established in January 2001 and acts for both the police force and the investigators. The Office for International Police Co-operation co-operates with the National Bureau of Interpol, the Unit of international bilateral co-operation and the National Bureau of Schengen and comprises a National Europol Centre. The conditions for the secondment of liaison officers have been established through an alteration covering the Police Force. From July 2001, two liaison officers with the status of police attaché have been based in diplomatic missions in Kiev (Ukraine) and The Hague (The Netherlands). As of April 2001, the Police Force Presidium set up a separate unit "National Schengen Information System organisation unit". One of the primary tasks of the unit is to draw up the timetable for the implementation of the Schengen *acquis* and the development of the necessary infrastructure.

As far as the **fight against fraud and corruption** is concerned, the Government approved individual plans in November 2000 comprising more than 1500 concrete tasks following the adoption of the National Programme to Combat Corruption last year (*see also Section B.1.1. - Democracy and the rule of law*). In December 2000 the Government established a central co-ordination unit for the fight against corruption. In January 2001, the Government approved a concept aimed at ensuring the transparency of the process of granting licences and permits and at identifying problem areas.

In February 2001, the Parliament ratified the 1990 Convention on **Laundering**, Search, Seizure and Confiscation of the Proceeds of Crime. An amendment to the Act on budgetary rules was adopted in January 2001, introducing new elements into the management and control of funds in the State budget of the Slovak Republic, including funds from the European Communities and other funds to finance international-agreement-based projects, and financial resources from State funds given to municipalities, legal entities and natural persons. An independent financial police unit has been set up within the Police Force, co-operating with police authorities in the member states and with OLAF.

The government has continued to implement the National Programme for the Fight against **Drugs** approved last year. In June 2001, the Slovak Republic formally applied for membership of the European Monitoring Centre for Drugs and Drug Addiction.

As far as **customs co-operation** is concerned, the Act on State Administration Bodies in the field of customs, together with the new Customs Act and its implementing provisions entered into force in July 2001. These acts are considered to serve the purpose of creating the appropriate legislative framework for the implementation of individual articles of the Convention on Mutual Assistance and Co-operation between Customs Administrations. From January 2001, the Customs Administration acceded to the information system of the World Customs Administration with full rights of access.

Concerning **judicial co-operation** in criminal and civil matters, the Law on Extradition of Slovak citizens was amended in June 2001. Slovakia will, according to the amendment, allow the extradition of citizens under binding international treaties and rules of international organisations. In February 2001 the Parliament approved the ratification of the 1980 European Convention on the Recognition and Enforcement of Decisions concerning Custody of Children and on Restoration of Custody of Children. The 1980 Convention on Civil Aspects of International Child Abduction entered into force for Slovakia in February 2001. Furthermore, in

March 2001 the Convention abolishing the requirement of legalisation of foreign public documents and the Convention on protection of children and co-operation in respect of inter-country adoption were ratified.

Overall assessment

Overall, Slovakia should make sure it maintains the appropriate momentum in the transposition and the implementation of the *acquis*. Sustained efforts are needed across all sectors, notably in the area of border control. Particular attention should be paid to the improvement of administrative capacity in the areas discussed.

The Slovak personal **data protection** regime is currently not fully in line with the *acquis* as the police data, the Slovak Intelligence Services' and army information systems are not yet covered by Slovak legislation. Slovakia needs to accelerate the adoption and subsequent implementation of the envisaged legislation on personal data protection and the strengthening of the independent supervisory authority, inter alia by increasing the level of staffing. The proper implementation of the Data Protection Act has to be ensured and the Commissioner's Office should be encouraged to develop a long-term and nation-wide approach.

The existing legislation for visa issuing procedures is partly in line with the *acquis*. The Slovak Republic has legislation that regulates the format of visas comparable with the legislation and practice of the EU member states. Partial alignment has so far been achieved with the relevant *acquis*. **Visa policy** needs to be updated to prepare for full alignment with the relevant EC Regulation and the setting-up of an on-line system for the issuing of visas and a central register has yet to be achieved. The Slovak Republic has yet to publish the list of countries whose nationals will be required to be in possession of airport transit visas. The Agreement on a visa-free regime concluded with Cuba is to be terminated. As regards administrative capacity, Slovakia has not yet completed the on-line system for the issuing of visas, nor a central visa register.

The recent reorganisation of the Border and Aliens Police, giving it the nation-wide responsibility for border management, should allow for the development of a comprehensive border management strategy. However, there remain a number of serious outstanding issues and problems relating to the proper functioning of the border police (i.e. equipment for **border controls**, surveillance and detecting of forged documents, level of staffing, co-operation between the different bodies involved). The number of staff at border posts remains too low, despite the strengthening at the border with Ukraine. The Slovak-Ukrainian border continues to be very permeable. In 2000, over €1.72 million were invested in technical equipment for the Border and Aliens Police on the Ukrainian and Hungarian border. Nevertheless, further efforts will have to be made to invest in modern techniques and basic equipment at border crossing points and at the green border. Careful attention should be paid to ensuring that there is sufficient co-operation between the different services involved. Slovakia still has to phase out the practice of employing conscripts as border guards and replace them with professional officers.

Regarding **migration**, the Act on the Stay of Aliens in the Territory of the Slovak Republic is, for the time being, only partly compatible with the *acquis* as regards the granting of long-term residence permits for employment purposes.

Slovakia is not yet fully in line with the *acquis* in the field of **asylum**. In particular, an independent body as the second instance in the asylum procedure still needs to be established. Furthermore, the exclusion clauses of the Law on Refugees are too broad, and its non-refoulement provisions remain to be brought into line with international agreements. Special attention needs to be paid to the practical application of provisions relating to the concept of "safe third country". The different responsibilities of the Migration Office and the Aliens and Border Police in determining the need for international protection remain a cause for concern, as they still do not guarantee a consistent and competent assessment of refugee cases. Moreover, the competence of the border police in the area of asylum policy should be further clarified. The section of immigration officers at the Migration Office needs additional reinforcement and professional training. Extra attention is to be devoted to the accommodation of asylum seekers and to eliminating the backlog of pending asylum cases and to implementing the Dublin Convention. In the first 7 months of 2001, a total of around 3,000 asylum applications were lodged in the Slovak Republic; only one applicant was recognised as a refugee. In 2000, there were 1,556 applications (1,320 in 1999). In 2000, the largest groups of asylum seekers were from Afghanistan, India, Pakistan, Iraq, Sri Lanka, Bangladesh and Kosovo. The fact that the number of asylum seekers is increasing, while the number of persons recognised as refugees is actually decreasing, must be considered as disturbing.

In the field of **police co-operation** and the **fight against organised crime**, the Slovak Republic has not yet reached full alignment with the *acquis*. The Penal Code is not yet in line with the *acquis*, notably as regards the notion of "organised crime". The re-codification of the Penal Code and the Code of Criminal Procedure, however, is to bring Slovakia in line with the *acquis* in this respect. Supervision over the municipal police needs to be strengthened, the role of the prosecution authorities during the pre-trial phase should be modernised and functional overlaps between police bodies and police investigators should be reduced. Slovakia should also ensure that the pre-requisites for the conclusion of a co-operation agreement with Europol are met.

With regard to the **fight against fraud and corruption**, there has been some progress but there remains a considerable gap between well-formulated policies and the implementation. Slovakia should step up its operational activities in this field. The Council of Europe Civil Law Convention on Corruption remains to be ratified.

In order to ensure the protection of the financial interests of the European Communities, Slovakia should continue to align its legislation fully with the Convention on the Protection of the Financial Interests of the European Communities and its Protocols. Moreover, efforts should be strengthened to ensure adequate implementation capacity and to ensure good co-operation between all of the law-enforcement bodies involved.

Alignment in **drugs legislation** needs to continue. As regards administrative capacity, Slovakia should take operational measures to reinforce the staffing and equipment of the national focal point for participation in the European information network on drugs and drug addiction (REITOX) of the European monitoring centre for drugs and drug addiction (EMCDDA). Slovakia should also improve inter-institutional co-operation among law-enforcement bodies in the fight against drugs supply.

As regards **money laundering**, Slovakia should undertake further action to ensure full alignment with the *acquis* and strengthen the administrative capacity of the Financial Intelligence Unit.

As regards **customs co-operation**, Slovakia should continue its efforts for the implementation of customs-related IT systems, the establishment of customs laboratories, the improvement of border management, staff training, staff ethics, and the fight against internal irregularities and corruption. Furthermore, Slovakia should improve the development of risk analysis and the co-ordination among its departments and with the other enforcement bodies, including the police and judicial authorities.

As far as **judicial co-operation** in civil and criminal matters is concerned, Slovakia has not yet acceded to the 1980 Convention on international access to Justice.

All the human rights legal instrument which are parts of the Justice and Home Affairs *acquis* have been ratified by Slovakia.

Chapter 25: Customs union

Slovakia has achieved considerable progress in the field of customs since the last Regular Report.

As regards alignment between Slovak legislation and the **EC Customs Code and its implementing provisions**, the new Customs Act and its implementing provisions, which removes the existing differences between Slovak legislation and the *acquis*, entered into force in July 2001. The Act covers the placing of goods under customs procedures, customs value, free zones and free warehouses and relief from customs duties. It also contains provisions on the powers of the customs authorities in the field of customs offences, recovery of customs debt, seizure of goods, sale of goods, administration of State property and organisation of the customs administration.

Regarding the **customs *acquis* outside the Customs Code**, it can be noted that compatible legislation on precursors entered into force in 2000. The Act on counterfeit and pirated goods, compatible with the EC legislation, entered into force in July 2001.

As far as the **administrative and operational capacity** to implement the *acquis* is concerned, significant progress can be noted. The Act on State administration bodies in the field of customs entered into force in July 2001. This Act is designed to regulate the status, organisation, powers and jurisdiction of State administration bodies in the field of customs (the Ministry of Finance in charge of legislation and legislative process and the Customs Directorate and the Customs Offices is in charge of the actual implementation of the customs legislation) and obligations, rights and means available to customs officers.

Regarding computerisation, a Customs Information System (CIS) composed of several subsystems is currently in place and is being developed. A new computerised system for the administration of indirect taxation, compatible with the future legislation on excise duty on mineral oils, has been developed. Work has also continued to further develop EC compatible customs IT systems. Only limited progress has been achieved in ensuring the full interconnection of the national systems with the EC customs IT systems.

The Customs Directorate has set up a department of indirect taxes to cope with the gradual transfer of competence for excise duty on mineral oils to the customs authorities (*see Chapter 10, Taxation*). Slovak Customs is enhancing the capacities of the Customs Laboratory in terms of facilities, equipment and personnel.

In relation to border management, action has been taken to tackle the problem of waiting times at the border, including an increased use of simplified procedures and of risk analysis methods. Work is being carried out both at the borders with Ukraine and the border with Poland to improve facilities and to speed up the trade flow.

The Customs Administration participates in the National anti-corruption programme. A code of Ethics has been implemented.

Overall assessment

Slovakia has almost completed the alignment of its customs legislation with the *acquis*. Legislation on cultural goods should enter into force as scheduled.

As regards administrative and operational capacity to implement the *acquis*, Slovakia should pay particular attention to the development of IT systems allowing computerised data exchange between the EU and Slovakia. In this respect, it must be emphasised that flawlessly, functioning EC-compatible IT systems should be put in place at least one year before accession to the EU in order to guarantee interconnectivity with the EC customs computerised systems.

Slovakia should continue its efforts to tackle the problem of waiting times at the borders, to act in the field of the fight against customs fraud and economic crime, and to improve co-operation with other enforcement bodies.

Chapter 26: External relations

Since the previous Regular Report Slovakia has continued to align its legislation with the *acquis* regarding the common commercial policy and to co-ordinate positions and policies within the World Trade Organisation with those of the EU, in particular with regard to the preparation of the New Round.

As regards the **common commercial policy**, upon accession Slovakia will be required to align its tariffs with those of the EC. Slovakia's applied tariffs currently average 9% on all products, 13.7% on agricultural products, 5.9% on fishery products and 8.1% on industrial products. By comparison the EC tariffs²⁰ currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

With regards to the WTO Agreement for Textiles and Clothing (ATC), the Slovak Republic has co-operated with the Community in the process of third - stage notification to align its list of products integrated under the ATC with the EU's, thus avoiding integrating products that have not yet been integrated by the EC.

²⁰ WTO bound tariffs after full implementation of all concessions including - where possible - estimated ad valorem equivalents of specific and compound tariffs.

Slovakia abolished as of January 2001 the 3% surcharge that it had imposed on imports. The Slovak Republic has unilaterally applied a suspension of MFN tariffs levied on imports of twelve civil aircraft products. This temporary measure is due to come to an end on 31 December 2001.

Concerning **bilateral agreements with third countries**, a Free Trade Agreement was initialled with the Republic of Croatia in June 2001. Within CEFTA, the member countries, including Slovakia, signed Additional Protocol No. 8 on the updated version of the Pan-European cumulation of origin of goods.. Slovakia joined the OECD in December 2000.

As regards the fields of **development policy** and **humanitarian aid**, co-operation and assistance, Slovakia is adapting its development practices to the principles laid down by the Development Assistance Committee.

Further to the new Customs Act, which took effect in July 2001, Slovakia has further harmonised its Generalised System of Preferences with the EU system.

Overall assessment

Slovakia is rather advanced in this area. Where alignment with the Community *acquis* on commercial policy is necessary, some further effort before accession is still required.

Harmonisation of legislation in the area of export credits and compliance with the OECD arrangement are advanced, although further efforts are necessary in order to achieve alignment with the *acquis*.

The EU and Slovakia have established a framework for co-operation regarding WTO issues both at ministerial and at departmental level. Slovakia has been supportive of EU policies and positions within the WTO framework. As regards the new round, Slovakia concurs with the EU on the need to launch a comprehensive trade round as soon as possible and shares the view that the results of work under the built-in-agenda would be less substantial in its absence.

Further co-ordination is needed to ensure the alignment of Slovakia's GATS commitments with the EC's commitments and MFN exceptions.

Slovakia is a member of the Information Technology Agreement (ITA). By the time of accession the Slovak Republic will need to have joined the WTO plurilateral agreements on Government Procurement, to which it has observer status, and on Civil Aircraft (ATCA).

Regarding dual use goods Slovakia still has to align its legislation to the *acquis*.

Slovakia is a member of CEFTA (Central European Free Trade Agreement) and holds free trade agreements with Estonia, Latvia, Lithuania, Turkey and Israel. In this area further progress is necessary in aligning with EC international trade obligations. Any international agreement that is incompatible with the obligations of membership will have to be re-negotiated or renounced prior to accession. Slovakia should continue to keep the Union fully informed about existing trade agreements or negotiations aimed at the conclusion of any new trade agreements with a third country. This applies also to Bilateral Investment Treaties concluded with third countries.

The administrative capacity relevant to external relations is split among several Ministries, including the Ministries of Economy, Agriculture, Foreign Affairs and Finance. The administrative infrastructure which needs to be in place as regards customs services is addressed under *chapter 25 - Customs union*. For the purpose of Slovakia's future financial contribution to the European Development Fund, Slovakia's management of its national budget organisation and management of flow of funds to the EC budget is addressed under *chapter 29 – Financial and budgetary provisions*.

Chapter 27: Common foreign and security policy

Since the last Regular Report Slovakia has continued to align its foreign policy with that of the European Union and has participated constructively in the framework of the Common Foreign and Security Policy.

The regular **political dialogue** established by the Association Agreement with Slovakia is proceeding smoothly and Slovakia continues to orient its foreign and security policy towards the Union. It continues to participate actively in the framework of the Common Foreign and Security Policy (CFSP), including the meetings at the level of Political Directors, European Correspondents and Working Groups.

Slovakia has shown a keen interest in the development of the European Security and Defence Policy (ESDP) as part of the CFSP and has actively participated in the exchanges in this context with the EU and in EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU).

The Parliament has adopted a Security and a Defence Strategy, setting out the country's main foreign policy objectives in line with those of the EU and aiming at creating a framework for reacting to security challenges.

As regards alignment with **EU statements and declarations**, Slovakia has regularly aligned its positions with those of the Union and when invited to do so has associated itself with the Union's **joint actions and common positions**. Since October 2000, it has associated itself with 8 EU common positions, including 3 on the Federal Republic of Yugoslavia. In February, the first informal meeting of the Political Committee of the EU to be held in a candidate country, took place in Bratislava. Slovakia has kept a good track record as regards implementing **international sanctions and restrictive measures**.

Over the last year, Slovakia has continued to take an active role in supporting international peacekeeping missions, notably in SFOR, KFOR and a series of UN, OSCE and EUMM peacekeeping and observer missions. In the reporting period, it joined the UN missions in Cyprus, East Timor, Eritrea, Ethiopia, the Golan Heights, Iraq and Syria. In February, the Parliament approved an amendment to the constitution, enabling Slovakia inter alia to join organisations for mutual collective security.

Slovakia played an active role in the first Capabilities Commitment Conference. The government approved the allocation of funds under the ESDP and is ready to provide special units forming part of the EU Rapid Intervention Force missions.

Slovakia further improved its relations with neighbouring central European partners both at multilateral and bilateral level. In November 2000, the Slovak and Czech governments signed an agreement on cross-border co-operation, notably to facilitate the flow of passenger traffic across the common border. In April, the Slovak and Hungarian government signed an agreement on cross-border co-operation, enabling local self-governments on either side to conclude joint Slovak-Hungarian projects. The implementation of the basic treaty with Hungary has continued through the functioning of several working groups. Discussions with Hungary on the Gabčíkovo-Nagymaros dam continued and were kept on a technical level.

The Visegrad Group continued to function properly. The Visegrad Fund, established last year, operated smoothly.

Overall assessment

Slovakia's alignment with the *acquis* in the CFSP is well advanced. As the *acquis* in the field of foreign policy and security develops further, Slovakia should maintain the orientation of its foreign policy in line with that of the Union.

Since the beginning of the political dialogue with the EU, Slovakia has reached significant alignment with the EU statements and other CFSP instruments.

Slovakia's relations with its neighbours have in general improved and Slovakia has taken a proactive role in promoting enhanced bilateral cooperation and regional integration, especially in the frame of the Visegrad group.

Slovakia has aligned itself to the content and principles contained in the EU Code of Conduct on Arms Exports, but there is concern that more efforts are necessary to ensure implementation of its criteria.

Concerning the administrative capacity to implement the provisions relating to the CFSP, Slovakia has a well-staffed and functioning Ministry of Foreign Affairs. The Slovak Ministry of Foreign Affairs is connected to the Associated Correspondents' Network information system through which the EU communicates within the CSFP with the associated partners.

Chapter 28: Financial control

Since last year's Regular Report Slovakia has made significant progress in this area.

Slovakia has moved forward in the legislative alignment of its **Public Internal Financial Control** systems. It has adopted the Act on Financial Control and Internal Audit, which provides the basis for the establishment of both financial management and control as well as of internal audit systems. The Act describes managerial accountability relating to financial management and control systems, establishes functionally independent internal audit services in the budget spending centres and gives the Ministry of Finance responsibility for developing and co-ordinating methodology for the Public Internal Financial Control systems including compliance assurance. As of October 2001, the Ministry of Finance has created a new Department for Financial Control and Internal audit methodology, directly reporting to the State Secretary in the Ministry of Finance and an Internal Audit Department directly reporting to the Minister.

Slovakia has made good progress in the area of **external audit**. An amendment to the Supreme Audit Office Act, aimed at the extension of the Supreme Audit Office (SAO) mandate to cover EC funds, entered into force in January 2001. The amendment of the Slovak constitution, which took place in February 2001, has strengthened the status and the role of the Supreme Audit Office has been strengthened. These constitutional changes were reflected in another amendment to the Supreme Audit Office Act, adopted in October 2001, which broadens the SAO mandate to audit all public funds, including the National Property Fund and EC funds. During the reporting period the SAO has undertaken several training activities and has increased its staff by five employees.

Slovakia has made limited progress in the area of **control over structural action expenditure**. In December 2001, Slovakia adopted the Act on Financial Control Authorities, which extended the scope of powers of the financial control authorities with regard to EC funds as well as other funds stemming from international agreements. The Audit Manual and the Audit Trail including the description of all the Pre-accession funds procedures have been prepared. No further steps can be reported with regard to the accreditation of the SAPARD Agency.

No further developments can be reported in the field of the **protection of EC financial interests**.

Overall assessment

Overall, Slovakia has advanced with regard to the legislative alignment, notably in the areas of Public Internal Financial Control. However, further substantial efforts are still required in order to implement sound financial control systems and strengthen, or build up, the necessary institutional structure.

With regard to Public Internal Financial Control, Slovakia needs to establish functionally independent internal audit units in line ministries with internal audit focussing on systems-based and performance-audit functions. Furthermore, Slovakia needs to define appropriate working methods for the Central Harmonising Unit at the Ministry of Finance. Both the internal audit units and the Central Harmonising Unit need to be adequately staffed with well-trained and experienced personnel.

In the area of external audit, Slovakia needs to reinforce the independent status of the Supreme Audit Office, especially with regard to its financial independence, and to enhance its overall operational capacity. The conformity of the external audit procedures with the internationally accepted and EU-compliant external audit standards needs to be ensured. Slovakia also needs to enhance the formal procedures to follow up the audit findings of the State Audit Office as well as to improve the transparency and publicising of the State Audit Office Reports.

With regard to the control of structural action expenditure, substantial efforts need to be made in order to enhance Slovakia's capacity to manage of pre-accession funding and future structural funds, in particular through the establishment of clear public internal financial control rules and procedures, and a substantial reinforcement of Slovakia's administrative capacity in this regard. The development of mechanisms for the rapid recovery of lost EC funds is equally important.

With a view to ensuring suitable protection of EC financial interests, Slovakia needs to put in place the legislation necessary to allow the competent authorities to carry out on-the-spot checks, if necessary jointly with the Commission, and to develop adequate administrative capacity to implement the *acquis*. Contacts should be pursued to agree on the most suitable institution with the appropriate competencies to co-ordinate investigations into cases of fraud and irregularities affecting the EC financial interests, and to act as a single contact point in relation with OLAF.

Chapter 29: Financial and budgetary provisions

Some limited progress has been made over the reporting period, mainly as regards the **national budget and EC co-financed measures**. The Slovak Budgetary Rules Act was amended with effect from January 2001 to allow for the management of EC pre-accession funds as State budget funds and introduce concomitant financial control mechanisms, including sanctions. Other amendments were introduced concerning common budgetary classifications for the compilation of aggregate public budget deficit, albeit not effective until 2003. As part of the overall public finance reform, a medium-term financial outlook was enclosed as an appendix to the 2001 State budget for the first time, although this outlook will only become an integral part of the budget from 2002.

As regards **own resources and administrative structures**, a new customs law entered into force in July 2001 (*for further details please refer to chapter 25, Customs Union*). Otherwise no particular developments can be reported.

Overall assessment

While at this stage the level of preparation achieved by Slovakia under this chapter is acceptable, further efforts will be required prior to accession.

Although basic budgetary rules in Slovakia are broadly satisfactory, further amendments will be necessary to ensure budgetary principles and practice are brought into line with standards generally applied in the Community. Plans to introduce procedures for multi-annual budgeting are welcome. In this regard, the approval of co-financing appropriations for inclusion in the State or municipal budgets to be available on a multi-annual basis should be assured. First steps in drawing up a medium-term budget outlook and improving macro-economic forecasting should be built on. The work in progress for defining and implementing the operating procedures for the management of EC pre-accession funds, through the National Fund, should be continued and improved.

In order to improve and promote the efficient allocation of resources, the procedures for selecting, monitoring and evaluating public investments and expenditure programmes need to be strengthened. At the same time, the corresponding analytical capacity should also be increased in the Ministry of Finance and the spending Departments.

As regards the Community's Own Resources, the Ministry of Finance is the central body of State administration responsible in the area of taxation, and for the performance of all customs functions. These functions are performed through the Customs Directorate and the Central Tax Directorate respectively. The calculation of own resources based on gross national product (GNP) is the responsibility of the Slovak Statistical Office. There is not yet any provision in

Slovak law with regard to the levies on trading in and warehousing of sugar. A draft Act on the Markets in Selected Agricultural Products is currently under discussion and, once adopted, should provide the basis for the relevant secondary legislation.

Appropriate administrative steps should be taken prior to accession to ensure the efficient central co-ordination of the proper collection, monitoring, payment and control of funds to and from the EC budget. The capacity to calculate in a reliable, accurate and transparent way the level of customs duties and VAT collected by Slovakia, and to calculate Slovakia's GNP, needs to be improved to allow calculations to be harmonised and verifiable. The ability to report accurately and regularly to the Commission on the situation with regard to each of the types of Own Resources needs to be assured. With regard to the control of future EC Own Resources, Slovakia should continue its efforts to set up effective instruments to combat VAT and customs duty fraud so that the financial interests of the EC can be protected.

Administrative capacity should also be strengthened in the context of the relevant policy areas described elsewhere in this report, such as Financial Control, Agriculture, Taxation, Customs, and Regional Policy.

3.2. Translation of the *acquis* into the national languages

Applicant countries are required to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. Primary and secondary legislation alone represents a considerable volume of acts, roughly estimated at 60,000-70,000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of Central and Eastern Europe.

So far, approximately 52 000 pages of the Official Journal have been translated into Slovak, of which more than 17 000 have been revised. The Central Translation Unit within the Slovak Institute for Approximation of Law is responsible for the translation of the *acquis* into the Slovak language. It currently employs 10 persons. Without prejudice to the outcome of the accession negotiations, further efforts are required in this area.

Due attention must also be given to the training of conference interpreters.

3.2. General evaluation²¹

Slovakia has continued to make good progress in legislative alignment with the *acquis*. As last year, progress has not been uniform across chapters. Significant progress has been achieved in areas such as free movement of goods, company law, social policy and employment as well as customs union. Structural weaknesses have persisted in a number of sectors, namely in agriculture as well as regional policy and co-ordination of structural instruments. While further progress in strengthening administrative capacities was made, reinforced and sustained efforts are needed across all sectors.

²¹ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

Concerning *internal market legislation*, further progress has been achieved, notably in *free movement of goods* and *free movement of services*. In the area of *free movement of persons*, progress continues to be limited. In *company law*, with the exception of trademarks, significant legislative progress has been made, especially through further alignment with the company law directives and adoption of a new patent law. Appropriate strengthening of administrative and judicial bodies involved in all areas of intellectual and industrial property rights should be continued. In *competition policy* the amendment to the Act on State Aid has brought the legislative framework largely in line with the *acquis*. In contrast to the anti-trust area, however, the enforcement record in the field of state aid remains rather sketchy and non-transparent. Administrative capacities in the internal market domain need reinforcing, in particular as regards the supervision of financial services.

As regards *agriculture*, overall steps both in aligning and implementing the *acquis* have been limited with the exception of veterinary issues, where significant progress was made. Efforts should be reinforced to establish an Integrated Administration and Control System, the adoption of specific market regulations should be accelerated, alignment in the phytosanitary sector speeded up and administrative capacities, including border inspection posts, strengthened.

Further legislative alignment was achieved in the field of *transport*, notably in relation to land transport. Substantial alignment across all sectors and reinforcement of the administrative capacities, including completing the setting-up of the necessary structures is, however, needed.

Limited legislative alignment of indirect and direct *taxation* has been accomplished and additional efforts are required for adjusting VAT and excise duty rate levels. The reform of the Slovak tax administration has moved forwards, the measures for its modernisation should be vigorously pursued. The IT tax information systems allowing for the exchange of electronic data with the EC and its Member States should be developed.

Further positive steps have been taken in the *energy* sector with the decision to substantially open the domestic electricity market and the launching of the privatisation of major energy companies. As regards nuclear energy, Slovakia should implement its decommissioning commitments, and continue to ensure a high level of nuclear safety. In *industrial policy*, Slovakia kept its reform momentum by continuing privatisation, particularly in banking privatisation, and enterprise restructuring. With the exception of postal services, Slovakia has reached an overall high degree of alignment in the area of *telecommunications and information technologies*. Emphasis should now be put on the effective implementation and strengthening of administrative capacities. Legislative alignment in the field of *consumers protection*, notably on non-safety related issues, has continued. Efforts to ensure adequate co-ordination and strengthening of those bodies involved in market surveillance need to be continued.

In the field of *social policy and employment*, considerable progress has been achieved notably in further aligning with the *acquis* in the area of labour law and equal treatment for men and women. The focus needs to move now to the implementation, with a particular emphasis on the enforcement of health and safety at work.

Progress in the field of *regional policy and co-ordination of structural instruments* has continued to be limited. The lack of sufficient and qualified staff in the relevant ministries and bodies involved remains a matter of concern.

Concerning *environment*, legislative alignment – with the exception of water quality, nature protection and industrial pollution and risk management, has well advanced although substantial alignment is still lying ahead. The measures to strengthen the administrative capacities should be rigorously pursued.

In the area of *co-operation in the field of justice and home affairs*, further progress in terms of alignment and administrative capacities has been achieved notably with regard to external border control by, inter alia, adopting a Schengen Action Plan, as well as in the fields of visa policy and police co-operation. Considerable progress in all relevant areas is needed, including reinforced efforts for strengthening administrative capacities.

Considerable steps were taken in the area of *customs union* with the entering into force of the new Customs Act and the Act on State administration bodies in the field of customs. IT systems allowing for the exchange of computerised data between the EC and Slovakia should be developed. Significant progress can be reported in the area of *financial control*, where the basic legislative framework for public internal financial control and external audit is now in place. Particular emphasis should be put on the area of control over structural action expenditure and protection of EC financial interests.

As regards *administrative capacities*, while good progress was made in a limited number of domains in strengthening the relevant institutions, overall progress in this regard has been limited. Whereas considerable progress has been achieved in the areas of free movement of capital and customs union, little progress can be reported notably in agriculture, transport policy, regional policy and co-ordination of structural instruments as well as co-operation in the fields of justice and home affairs. As regards enforcement, more efforts should be invested particularly in the areas of company law, competition policy, as well as social policy and employment. The positive momentum reached in strengthening administrative capacities in the areas of taxation, energy and environment should be maintained. The institutions and mechanisms related to the efficient and controllable management of EC funds needs to be considerably strengthened.

The decision of the Government to increase the number of staff dealing with EU integration by approximately 1 200 persons by 2002 is a welcome step necessary to strengthen the overall still weak administrative capacities.

The short term priorities of the *1999 Accession Partnership* have been met to a large extent in the field of internal market and social policy and employment; they have been partially met in the area of energy as well as co-operation in the fields of justice and home affairs and only to a limited extent in agriculture and environment. All medium term priorities have been partially met, with the exception of transport policy, regional policy and co-ordination of structural instruments as well as environment, where priorities were fulfilled only to a limited extent.

C. Conclusion²²

In its 1999 Regular Report, the Commission concluded that Slovakia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Slovakia continues to fulfil the Copenhagen political criteria.

Significant progress was achieved with regard to the structure and functioning of the administration. The legal framework for the decentralisation of public administration was adopted, and so was the civil service law. Due implementation of the legislation is now required to ensure that the public administration adequately fulfils the key role it has to play in a functioning democracy based on the rule of law and in support of the accession process.

Important steps were taken to strengthen the independence of the judiciary. In particular, the constitutional amendment abolished the four-year probationary period for judges and provided for setting up a Judicial Council. This amendment now needs to be implemented by primary legislation and at a practical level to guarantee the judiciary's professional impartiality and political neutrality.

Further progress can be noticed in the fight against corruption, notably in translating and implementing the government policy into concrete actions and transposing international obligations. Corruption, however, remains a serious cause for concern. In order to continue improving the fight against corruption Slovakia should rigorously carry on the implementation of the action plans, strictly enforce existing legislation and complete planned legislation as well as strengthen administrative capacities and co-ordination among the bodies involved.

The constitutional reform also created the basis for the strengthening of Slovakia's institutional structure in the field of human rights. However, there is a need to address police behaviour, notably with regard to reported cases of ill-treatment

Significant efforts in further developing and putting into practice approaches to protect minority rights were taken in the reference period, notably in implementing relevant Government strategies. Positive steps were achieved towards enhancing the use and protection of minority languages. As regards the Roma minority, the implementation of the Roma strategy, adopted subsequently in 1999 and 2000, should be further enhanced and the appropriate financial means at national and local level should be made available. In this context it will be important to improve efforts to fight against widespread discrimination.

The short term priorities of the 1999 Accession Partnership related to the modernisation and decentralisation of the public administration were fulfilled. Important steps were taken in strengthening the independence of the judiciary, which constituted a short term priority, as well. Despite further positive measures, tangible improvement of the situation of the Roma minority, another short term priority, was achieved only to a limited extent. So were the medium term priorities for the political criteria of the 1999 Accession Partnership, calling for continued

²² See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

implementation of minority language legislation and strengthening policies and budgetary means towards the Roma minority.

Slovakia is a functioning market economy. Provided that it makes further substantial efforts in medium term fiscal consolidation and in developing and fully implementing the announced structural reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Overall, macroeconomic stability has been maintained. There has been further good progress in bank privatisation, which is nearing completion. Further progress was also made in restructuring and towards privatisation of the remaining state-owned utilities and transport enterprises. Further progress was made in setting the framework for private sector development.

However, the substantial widening in the current account deficit will require a more prudent fiscal policy stance. Unemployment is high and rising. Some parts of the legal and institutional framework for enterprise development are in need of further improvements and effective implementation. Financial sector supervision has to be further strengthened. Steps must be taken to ensure the medium-term sustainability of public finances. The authorities need to comply with their fiscal targets, by implementing medium-term public expenditure reforms, in particular in the health, pension, and subsidy areas. Macroeconomic stabilisation will need to be consolidated by a continued prudent combination of fiscal and monetary policy. Further progress in privatisation, in the administrative and legal framework and in financial sector reforms will set the stage for future private sector development. Growth in employment will further require fundamental reforms of the labour market.

Slovakia has continued to make good progress in legislative alignment with the *acquis*. As last year, progress has not been uniform across chapters. Significant progress has been achieved in areas such as free movement of goods, company law, social policy and employment as well as customs union. Structural weaknesses have persisted in a number of sectors, namely in agriculture as well as regional policy and co-ordination of structural instruments. While further progress in strengthening administrative capacities was made, reinforced and sustained efforts are needed across all sectors.

Concerning *internal market legislation*, further progress has been achieved, notably in *free movement of goods* and *free movement of services*. In the area of *free movement of persons*, progress continues to be limited. In *company law*, with the exception of trademarks, significant legislative progress has been made, especially through further alignment with the company law directives and adoption of a new patent law. Appropriate strengthening of administrative and judicial bodies involved in all areas of intellectual and industrial property rights should be continued. In *competition policy* the amendment to the Act on State Aid has brought the legislative framework largely in line with the *acquis*. In contrast to the anti-trust area, however, the enforcement record in the field of state aid remains rather sketchy and non-transparent. Administrative capacities in the internal market domain need reinforcing, in particular as regards the supervision of financial services.

As regards *agriculture*, overall steps both in aligning and implementing the *acquis* have been limited with the exception of veterinary issues, where significant progress was made. Efforts should be reinforced to establish an Integrated Administration and Control System, the adoption

of specific market regulations should be accelerated, alignment in the phytosanitary sector speeded up and administrative capacities, including border inspection posts, strengthened.

Further legislative alignment was achieved in the field of *transport*, notably in relation to land transport. Substantial alignment across all sectors and reinforcement of the administrative capacities, including completing the setting-up of the necessary structures is, however, needed.

Limited legislative alignment of indirect and direct *taxation* has been accomplished and additional efforts are required for adjusting VAT and excise duty rate levels. The reform of the Slovak tax administration has moved forwards, the measures for its modernisation should be vigorously pursued. The IT tax information systems allowing for the exchange of electronic data with the EC and its Member States should be developed.

Further positive steps have been taken in the *energy* sector with the decision to substantially open the domestic electricity market and the launching of the privatisation of major energy companies. As regards nuclear energy, Slovakia should implement its decommissioning commitments, and continue to ensure a high level of nuclear safety. In *industrial policy*, Slovakia kept its reform momentum by continuing privatisation, particularly in banking privatisation, and enterprise restructuring. With the exception of postal services, Slovakia has reached an overall high degree of alignment in the area of *telecommunications and information technologies*. Emphasis should now be put on the effective implementation and strengthening of administrative capacities. Legislative alignment in the field of *consumers protection*, notably on non-safety related issues, has continued. Efforts to ensure adequate co-ordination and strengthening of those bodies involved in market surveillance need to be continued.

In the field of *social policy and employment*, considerable progress has been achieved notably in further aligning with the *acquis* in the area of labour law and equal treatment for men and women. The focus needs to move now to the implementation, with a particular emphasis on the enforcement of health and safety at work.

Progress in the field of *regional policy and co-ordination of structural instruments* has continued to be limited. The lack of sufficient and qualified staff in the relevant ministries and bodies involved remains a matter of concern.

Concerning *environment*, legislative alignment – with the exception of water quality, nature protection and industrial pollution and risk management, has well advanced although substantial alignment is still lying ahead. The measures to strengthen the administrative capacities should be rigorously pursued.

In the area of *co-operation in the field of justice and home affairs*, further progress in terms of alignment and administrative capacities has been achieved notably with regard to external border control by, inter alia, adopting a Schengen Action Plan, as well as in the fields of visa policy and police co-operation. Considerable progress in all relevant areas is needed, including reinforced efforts for strengthening administrative capacities.

Considerable steps were taken in the area of *customs union* with the entering into force of the new Customs Act and the Act on State administration bodies in the field of customs. IT systems allowing for the exchange of computerised data between the EC and Slovakia should be developed. Significant progress can be reported in the area of *financial control*, where the

basic legislative framework for public internal financial control and external audit is now in place. Particular emphasis should be put on the area of control over structural action expenditure and protection of EC financial interests.

As regards *administrative capacities*, while good progress was made in a limited number of domains in strengthening the relevant institutions, overall progress in this regard has been limited. Whereas considerable progress has been achieved in the areas of free movement of capital and customs union, little progress can be reported notably in agriculture, transport policy, regional policy and co-ordination of structural instruments as well as co-operation in the fields of justice and home affairs. As regards enforcement, more efforts should be invested particularly in the areas of company law, competition policy, as well as social policy and employment. The positive momentum reached in strengthening administrative capacities in the areas of taxation, energy and environment should be maintained. The institutions and mechanisms related to the efficient and controllable management of EC funds needs to be considerably strengthened.

The decision of the Government to increase the number of staff dealing with EU integration by approximately 1 200 persons by 2002 is a welcome step necessary to strengthen the overall still weak administrative capacities.

The short term priorities of the *1999 Accession Partnership* have been met to a large extent in the field of internal market and social policy and employment; they have been partially met in the area of energy as well as co-operation in the fields of justice and home affairs and only to a limited extent in agriculture and environment. All medium term priorities have been partially met, with the exception of transport policy, regional policy and co-ordination of structural instruments as well as environment, where priorities were fulfilled only to a limited extent.

D. Accession Partnership and National Programmes for the Adoption of the *Acquis*: Global assessment

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's Regular Report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages to deal with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnerships highlighted in italics.²³

Short-term priorities

Political criteria: The action plan to prevent all form of discrimination is being gradually implemented. Further employment opportunities for the *Roma minority* were created, as well as preparatory classes for their children established. However, the gap between good intentions and actual implementation in this area persists. Little tangible progress in the daily life of the Roma minority can be noted. In particular, adequate financial support at national and local level needs to be ensured. Therefore, **this priority continues to have been addressed to a limited extent.**

Economic criteria: *Macroeconomic stability* has greatly improved. The three major *banks* have been privatised and *other enterprise restructuring* is progressing. *Bad-debt recovery mechanisms* have been set up but need to be implemented. The privatisation of the State-monopoly *insurance company* is progressing well. *New bankruptcy procedures* and *investment promotion legislation* have been adopted but still need to be implemented. Therefore, taking into account the above-mentioned necessary implementation of legislative changes, **this priority continues to have been met to a large extent.**

Internal market

- A Public Procurement Office has been set up and complaints and oversight procedures established, though these remain to be improved. In the area of *industrial and intellectual*

²³ For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership, please refer to Council Decision 1999/853/EC, OJ L335 of 28/12/1999, p22.

property rights despite some progress in legislative alignment, considerable reinforcement of the capacities for the fight against counterfeiting is still necessary. As regards the *free movement of goods*, alignment with *New Approach* Directives as well as with product specific legislation in other sectors is progressing well. Basic chemicals legislation has now been adopted. Independent accreditation and standardisation structures have been established and the adoption of EN standards has been accelerated. In *free movement of capital* some progress has been achieved, but a few restrictions on direct investment still remain; restrictions for institutional investors need to be progressively relaxed. With regard to *financial services*, strengthening and co-ordinating the financial supervisory authorities need to be continued. In the field of *competition*, there are some problems with the enforcement of state aid rules. Also, though annual state aid reports are being produced, the *State aid* inventory is still experiencing delays.

- As regards *telecommunications*, following considerable progress in this area, the separation of regulatory and ownership functions needs to be completed. In the area of culture and audiovisual policy Slovakia has reached a high level of alignment with the acquis. In the *taxation area* Slovakia has taken some further steps to align its legislation in the area of excise duties, while in the field of VAT, alignment has made more limited progress. In the *customs* area good efforts have been made to strengthen border control. **Taking into account the above exceptions, this priority continues to have been met to a large extent.**

Agriculture

- While considerable progress has been made with regard to the *alignment of veterinary legislation*, further efforts are required in the *phytosanitary* field. No further progress has been made as regards establishment of the *Border Inspection Posts at the future external borders*. Concerning *establishment of a vineyard register*, only preparatory work has been made so far. Therefore, **this priority** - with the exception for the alignment in the veterinary field – **continues to have been addressed only to a limited extent.**

Energy

- A *decommissioning plan for Bohunice VI* has been drawn but needs to be adopted and implemented. No progress can be reported in the field of *energy efficiency*. Efforts continued to be made to ensure high levels of *nuclear safety*. Therefore, **this priority continues to have been partially met.**

Employment and social affairs

- Progress in enforcing *occupational safety and health legislation* remains limited. Promotion of *bipartite social dialogue* continued. The *national employment strategy* has been prepared and the necessary steps taken to launch the Joint Employment Review. **This priority has been, therefore, met to a large extent.**

Environment

- A *comprehensive approximation strategy* and a plan for financing investments are still lacking. The approval by the parliament of the Draft National Plan for Sustainable Development would be a step forward. Very little progress has been made in the alignment

in the fields of *water, nature protection and Industrial Pollution and Risk Management*. Good progress has been made in the area of *waste*, while as regards *air quality*, some limited progress has been achieved. Progress has been made in the transposition of the *Environmental Impact Assessment* directive. Therefore, **this priority has been met to a limited extent.**

Justice and Home Affairs

- Some progress in the *fight against organised crime and illegal migration* continued to be achieved but still much more needs to be done. The process of preparing the administrative structures for Slovakia to join the Schengen Information System has been launched. Slovakia has ratified the *European convention on money laundering*. The *penal code* has not yet been aligned in this area. Further improvement is needed in the *asylum legislation* (notably the establishment of the *second instance body for appeals*). The capacity to deal with *money laundering* needs to be strengthened. In summary, **this priority continues to have been partially met.**

Reinforcement of administrative and judicial capacity, including management and control of EC funds

- The *civil service law* has been adopted and the implementation of the *public administration reform* strategy started. The *Rural Development Plan* has been approved by the Commission, the *National Development Plan* further developed. Slovakia needs to ensure that the appropriate legal and administrative structures needed for the programming, co-ordination, management, control and evaluation of *EC pre-accession funds* are in place. In particular, the *SAPARD agency* needs to be accredited. *Environmental impact assessments* have been included for projects co-financed by Community Funds. As regards the *legislative framework for internal and external financial control*, the Act on Financial Control and Internal Audit as well as the amendment to the Supreme Audit Office Act have been adopted. Further substantial efforts are required in order to build-up the necessary institutional structure in the area of public internal financial control, in particular the *Central Harmonising Unit* and the *functionally independent internal audit units* in the spending centres. The *constitution* has been amended, abolishing the probationary system for judges. **This priority has therefore been partially met.**

Medium-term priorities

Political criteria

- The protection of the use of *minority languages* has been strengthened by ratifying the European Charter of Regional and Minority Languages. There remains, however, the need for reinforced implementation of existing minority language legislation and for adopting further necessary legislation. Whereas *policies* have been further strengthened, *budgetary means* remained rather low. Improving the situation of the Roma across all areas requires continued, sustained efforts. Therefore, **this priority has been met to a limited extent.**

Economic criteria

- On the whole, efforts have been made to promote the *competitiveness of the private sector* but SMEs development is insufficient. The *privatisation process* is well advanced but not entirely completed. Remaining *administered prices and rents* are progressively deregulated. An *annual fiscal surveillance procedure* for monitoring public finances has been set up. The *reform of social security financing* in particular for health and pension systems still needs to be continued. **This priority has, therefore, been partially met.**

Internal market

- Concerning *data protection alignment*, the Supervisory body for personal data protection is playing an active role but the directive on the protection of personal data has not been transposed yet. As regards *free movement of goods*, although not complete, the alignment with sectoral legislation and adoption of EN standards is progressing well. Some implementing structures still need to be properly established, such as for chemicals and for authorisations of medicines. In *free movement of capital*, as far as natural persons are concerned, the present legislation does not permit non-residents to acquire real estate. In the field of *free movement of services*, substantial progress has been achieved in alignment and implementation of the main banking directives but little progress can be reported for the directives on insurance, investment services and securities markets. Concerning *free movement of persons*, mutual recognition of professional qualifications is lagging. In the field of *competition* legislative alignment is progressing well, although as regards State aid, more needs to be done in terms of transparency, flow of data and co-ordination within the administration, and problems with enforcement need to be addressed.
- In the *telecommunications* sector, despite progress achieved the independent national regulatory authority needs to be further strengthened. As regards *taxation*, efforts have been made both on legislative alignment and on administrative capacity, however much remains to be done. The existing laws under the principles of the Code of Conduct have been reviewed. The independent national regulatory authority has been strengthened. With respect to *consumer protection*, some efforts will be required to upgrade market surveillance and conformity assessment structures to EC levels. In the *customs* area good progress has been achieved by setting up a department of indirect taxes within the Customs Directorate to cope with the gradual transfer of competence on excise duty on mineral oils to the customs authorities. Efforts have been made to increase the handling capacity of the customs border posts. In summary, **this priority has been partially met.**

Agriculture

- Little progress has been made towards the *reinforcement of Common Agricultural Policy management mechanisms and administrative structures*. The legislation governing the different markets covered by the *acquis* is not yet completed. The SAPARD Agency has not yet been accredited. The efforts towards the establishment of the Integrated Administration and Control System (IACS) need to be accelerated. The agri-food sector still needs to be restructured, as well as the food control administration to be reinforced. Considerable progress has been achieved as regards legislative alignment in the veterinary field, in particular in the areas of *animal identification, animal waste treatment and residue and zoonoses controls*). The *inspection systems on future external borders* still need to be completed or established. In summary, **this priority has been partially met.**

Energy

- No progress can be reported on improvement of *energy efficiency*. Efforts are still needed to prepare the *internal energy market* (electricity and gas directives), to align *oil stock requirements* and to prepare overall planning and licensing work for the decommissioning of Bohunice V1 nuclear power plant. There has been significant progress to ensure a high level of *nuclear safety* at Bohunice V2 and Mochovce nuclear power plants. The Slovak Nuclear Regulatory Authority has been adequately strengthened. Therefore, **this priority has been partially met.**

Transport

- Only limited progress has been achieved in the field of *air, road, rail and inland waterways transport*. Therefore, **this priority has been met to a limited extent.**

Employment and social affairs

- *Transposition and implementation of relevant EU legislation* has progressed considerably. The related *administrative structures* as well as those required for the co-ordination for social security still need to be reinforced. An *independent guarantee fund* has been established. Therefore, **this priority has been partially met .**

Economic and social cohesion

- Major efforts are needed notably as concerns improving the *administrative structures* and preparation for the implementation of *regional development programmes*. The lack of adequately qualified staff remains a matter of major concern at the Ministry of Construction and Regional Development. Therefore, **this priority has been met only to limited extent.**

Environment

- Concerning transposition and implementation of framework legislation, there has been very little progress in the areas of *water, nature protection and industrial pollution and risk management*. Good progress has been made in the area of *waste*, while as regards *air quality*, some limited progress has been achieved. Progress has been made in the transposition of the *Environmental Impact Assessment* directive. As far as the need to reinforce monitoring and implementation control capacities at the Ministry, regional and district levels, and to reinforce the Environmental Inspectorate, further efforts are still needed. Far greater attention should be paid to the integration of sustainable development principles into the definition and implementation of all other sectoral policies. Therefore, **this priority has been met to a limited extent.**

Justice and Home Affairs

- Only little progress has been achieved in upgrading law enforcement bodies and the judiciary, notably in the field of border control. An organisation unit with the Police Force Presidium has been established to prepare for the National Schengen Information System. Trafficking in women and children, drugs as well as corruption remains a cause for concern. The co-ordination between law enforcement bodies needs to be further improved. Slovakia continued to advance in aligning its visa legislation and practice with that of the EU. Therefore, **this priority has been partially met.**

Reinforcement of administrative and judicial capacity, including management and control of EC funds

- With regard to the *strengthening of the Supreme Audit Office* (SAO), the SAO has increased its staff by five employees and has undertaken several training activities. The staffing and training of the *internal audit units* and the *Central Harmonising Unit* still needs to be completed. Statistical capacities needs to be further strengthened. **This priority has, therefore, been partially met.**

2. National Programme for the Adoption of the *Acquis*

The fourth revision of the National Programme for the Adoption of the *Acquis* (NPAA) was approved by the Slovak government on 30 May 2001. The revised text was prepared in a format consistent with past editions and is generally in line with the guidelines provided by the Commission in the past.

The NPAA consists this time of single core document. As last year's edition, the document, which extends to about 400 pages, still lacks a summary version. The document covers the political criteria, the economic criteria and the ability to assume the obligations of membership (*acquis*). The latter part is divided into the 29 negotiation chapters. Each section under the *acquis* chapter has a uniform structure covering: measures adopted (including legislation and administrative structures), short-term priorities, medium-term priorities, administrative needs and financial needs. The document concludes with a review of transposition of the *acquis* into Slovak legislation.

In general the NPAA is consistent with commitments made by Slovakia in the framework of the Europe Agreement, the screening and the negotiations process. The Accession Partnership priorities are mostly included in the text and there is ample reference to the Regular Report conclusions. Sector coverage is generally appropriate with some exceptions. Moreover, the NPAA fulfils its role as a co-ordinating instrument and notably contains relevant references to ISPA and SAPARD.

Nonetheless, the administrative capacity aspects are still often not sufficiently addressed under many parts of the *acquis*. Also financial estimates often remain weak and incomplete, lacking in sufficient breakdown and justification. Deadlines are partly too optimistic.

The current NPAA has reached a qualitatively good level as a useful tool to steer the process of preparation for accession. However further efforts are needed to render the instrument fully operational. It will be important, in particular, to address administrative capacities more thoroughly and to sharpen financial estimates. In order to facilitate monitoring it would be useful to produce, in the future, a summary document and a monitoring table, thus allowing for the proper checking of compliance with target dates and financial targets.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
30 September 2001***

| <i>Adherence to following conventions and protocols</i> | BG | CY | CZ | EE | HU | LV | LT | MT | PL | RO | SK | SI | TK |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| ECHR (European Convention on Human Rights) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Protocol 1 (right of property) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Protocol 4 (freedom movement et al.) | X | X | X | X | X | X | X | O | X | X | X | X | O |
| Protocol 6 (death penalty) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| Protocol 7 (ne bis in idem) | X | X | X | X | X | X | X | O | O | X | X | X | O |
| European Convention for the Prevention of Torture | X | X | X | X | X | X | X | X | X | X | X | X | X |
| European Social Charter | O | X | X | O | X | O | O | X | X | O | X | O | X |
| Revised European Social Charter | X | X | O | X | O | O | X | O | O | X | O | X | O |
| Framework Convention for National Minorities | X | X | X | X | X | O | X | X | X | X | X | X | O |
| ICCPR (International Covenant on Civil and Political Rights) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| Optional Protocol to the ICCPR (right of individual communication) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| Second Optional Protocol to the ICCPR (death penalty) | X | X | O | O | X | O | O | X | O | X | X | X | O |
| ICESCR (International Covenant on Economic, Social and Cultural Rights) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| CAT (Convention against Torture) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| CERD (Convention on the Elimination of All Forms of Racial Discrimination) | X | X | X | X | X | X | X | X | X | X | X | X | O |
| CEDAW (Convention on the Elimination of All Forms of Discrimination against Women) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Optional Protocol to the CEDAW | O | O | X | O | X | O | O | O | O | O | X | O | O |
| CRC (Convention on the Rights of the Child) | X | X | X | X | X | X | X | X | X | X | X | X | X |

X = Convention ratified

O = Convention **NOT** ratified

BG=Bulgaria; CY=Cyprus; CZ=Czech Republic; EE=Estonia; HU=Hungary; LV=Latvia; LT=Lithuania; MT=Malta; PL=Poland; RO=Romania; SK= Slovak Republic; SV=Slovenia; T=Turkey

Statistical data

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|--|--------|--------|--------|---------|
| Basic data | in 1000 | | | | |
| Population (average) | 5.374 | 5.383 | 5.391 | 5.395 | 5.401 P |
| | in km² | | | | |
| Total area | 49.030 | 49.030 | 49.035 | 49.035 | 49.035 |
| National accounts | 1000 Mio Slovak Koruna | | | | |
| Gross domestic product at current prices | 606,1 | 686,1 | 750,8 | 815,3 | 887,2 |
| | 1000 Mio ECU/euro | | | | |
| Gross domestic product at current prices | 15,6 | 18,0 | 19,0 | 18,5 | 20,9 |
| | ECU/euro | | | | |
| Gross domestic product per capita ²⁴ at current prices | 2.900 | 3.300 | 3.500 | 3.400 | 3.900 |
| | % change over the previous year | | | | |
| Gross domestic product at constant prices (nat. currency) | 6,2 | 6,2 | 4,1 | 1,9 | 2,2 |
| | in Purchasing Power Standards | | | | |
| Gross domestic product per capita ²⁵ at current prices | 8.500 | 9.300 | 9.800 | 10.300 | 10.800 |
| Structure of production | % of Gross Value Added²⁶ | | | | |
| - Agriculture | 5,2 | 5,0 | 4,6 | 4,5 | 4,5 |
| - Industry (excluding construction) | 32,2 | 29,1 | 28,1 | 29,3 | 28,9 |
| - Construction | 7,8 | 7,5 | 7,1 | 5,8 | 5,2 |
| - Services | 54,8 | 58,4 | 60,2 | 60,4 | 61,3 |
| Structure of expenditure | as % of Gross Domestic Product | | | | |
| - Final consumption expenditure | 74,4 | 73,2 | 74,8 | 73,5 | 72,4 |
| - household and NPISH | 52,6 | 52,0 | 53,3 | 54,0 | 53,4 |
| - general government | 21,8 | 21,2 | 21,5 | 19,5 | 19,0 |
| - Gross fixed capital formation | 34,2 | 35,9 | 38,0 | 30,8 | 30,0 |
| - Stock variation | 2,9 | 0,7 | -1,9 | 1,1 | 0,1 |
| - Exports of goods and services | 55,2 | 58,0 | 61,2 | 61,5 | 73,5 |
| - Imports of goods and services | 66,8 | 67,8 | 72,2 | 66,9 | 76,0 |
| Inflation rate | % change over the previous year | | | | |
| Consumer price index ²⁷ | 5,8 | 6,1 | 6,7 | 10,6 | 12,1 |
| Balance of payments | Mio ECU/euro | | | | |
| -Current account | -1.564 | -1.616 | -1.764 | -920 | -773 |
| -Trade balance | -1.830 | -1.840 | -2.094 | -1.026 | -995 |
| Exports of goods | 7.048 | 8.524 | 9.540 | 9.603 | 12.876 |
| Imports of goods | 8.877 | 10.364 | 11.634 | 10.629 | 13.870 |
| -Net services | 140 | 178 | 144 | 205 | 477 |
| -Net income | -36 | -107 | -140 | -283 | -383 |
| -Net current transfers | 162 | 155 | 327 | 184 | 128 |
| -of which: government transfers | 8 | 8 | 0 | -1 | -6 |
| - FDI (net) inflows | 285 | 195 | 609 | 366 | 2.258 |
| Public finance | in % of Gross Domestic Product | | | | |
| General government deficit/surplus | -2,1 | -5,7 | -4,9 | -5,7 | -6,7 |
| General government debt | : | 29,7 | 29,7 | 29,8 | 32,4 |

²⁴ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

²⁵ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

²⁶ Including FISIM.

²⁷ Changes in Methodology: PROXY HICP since 1996 (see methodological notes).

| Financial indicators | in % of Gross Domestic Product | | | | |
|---|---------------------------------------|-------|-------|-------|-------|
| Gross foreign debt of the whole economy | 22,3 | 31,1 | 36,5 | 42,1 | 37,3 |
| | as % of exports | | | | |
| Gross foreign debt of the whole economy | 40,4 | 53,7 | 59,6 | 68,3 | 50,8 |
| Monetary aggregates | 1000 Mio ECU /euro | | | | |
| - M1 | 4,4 | 4,3 | 3,4 | 3,6 | 4,3 |
| - M2 | 10,4 | 11,8 | 10,9 | 12,4 | 13,8 |
| - M3 | : | : | : | : | : |
| Total credit | 10,7 | 12,1 | 12,2 | 13,2 | 13,9 |
| Average short-term interest rates | % per annum | | | | |
| - Day-to-day money rate | 11,6 | 24,6 | 14,5 | 11,5 | 8,0 |
| - Lending rate | 14,4 | 15,1 | 14,5 | 10,7 | 9,8 |
| - Deposit rate | 10,3 | 11,4 | 15,3 | 14,5 | 8,9 |
| ECU/EUR exchange rates | (1ECU/euro=..Slovak Koruna) | | | | |
| - Average of period | 38,92 | 38,11 | 39,54 | 44,12 | 42,48 |
| - End of period | 39,95 | 38,43 | 43,21 | 42,40 | 43,93 |
| | 1990=100 | | | | |
| - Effective exchange rate index | 68,8 | 72,1 | 70,0 | 63,0 | 64 |
| Reserve assets | Mio ECU/euro | | | | |
| - Reserve assets (including gold) | 3.108 | 3.261 | 2.820 | 3.722 | 4.715 |
| - Reserve assets (excluding gold) | 2.728 | 2.922 | 2.497 | 3.358 | 4.338 |

| External trade²⁸ | Mio ECU/euro | | | | |
|------------------------------------|----------------------------|--------|--------|--------|--------|
| Trade balance | -1.830 | -1.840 | -2.094 | -1.026 | -995 |
| Exports | 7.048 | 8.524 | 9.540 | 9.603 | 12.876 |
| Imports (FOB) | 8.877 | 10.364 | 11.634 | 10.629 | 13.870 |
| | | | | | |
| | previous year = 100 | | | | |
| Terms of trade | : | : | : | : | : |
| | as % of total | | | | |
| Exports with EU-15 | 41,3 | 47,1 | 55,7 | 57,3 | 59,1 |
| Imports with EU-15 | 37,3 | 43,8 | 50,1 | 51,7 | 48,9 |

| Demography | per 1000 of population | | | | |
|--|-------------------------------|------|------|------|------|
| Natural growth rate | 1,7 | 1,3 | 0,8 | 0,7 | 0,4 |
| Net migration rate (including corrections) | 0,4 | 0,3 | 0,2 | 0,3 | 0,3 |
| | per 1000 live-births | | | | |
| Infant mortality rate | 10,2 | 8,7 | 8,8 | 8,3 | 8,6 |
| Life expectancy : | at birth | | | | |
| Males: | 68,9 | 68,9 | 68,6 | 69,0 | 69,2 |
| Females: | 76,8 | 76,7 | 76,7 | 77,0 | 77,2 |

| Labour market (ILO methodology) | % of labour force | | | | |
|--|-------------------------------|------|------|------|------|
| Economic activity rate | 60,1 | 59,9 | 59,9 | 60,0 | 60,3 |
| Unemployment rate, total | 11,3 | 11,8 | 12,5 | 16,2 | 18,6 |
| Unemployment rate, males | 10,2 | 10,9 | 11,9 | 16,0 | 18,6 |
| Unemployment rate, females | 12,7 | 12,8 | 13,2 | 16,4 | 18,6 |
| Unemployment rate of persons < 25 years | 21,0 | 21,7 | 23,6 | 32,1 | 35,2 |
| Unemployment rate of persons >= 25 years | 9,3 | 9,7 | 10,1 | 12,9 | 15,3 |
| | as % of all unemployed | | | | |
| Long-term unemployment rate | 51,6 | 50,3 | 50,7 | 46,9 | 53,9 |
| Average employment by NACE branches | in % of total | | | | |
| - Agriculture and forestry | 8,9 | 9,2 | 8,3 | 7,4 | 6,7 |
| - Industry (excluding construction) | 31,0 | 30,2 | 30,1 | 29,6 | 29,3 |

²⁸ Data since 1997 are processed according to the Ministry of Finance of the SR's Notice No.167/1997 and they are not comparable with data for year 1996; data up to the year 1999 are definitive; year 2000 - preliminary ones; annual average of exchange rates quoted by National Bank of Slovakia is used for recalculation of the value expressed in Euro.

| | | | | | |
|----------------|------|------|------|------|------|
| - Construction | 8,5 | 9,1 | 9,3 | 8,9 | 8,0 |
| - Services | 51,6 | 51,5 | 52,3 | 54,2 | 56,1 |

| Infrastructure | in km per 1000 km² | | | | |
|-----------------------|--------------------------------------|-----|-----|-----|-----|
| Railway network | 75 | 75 | 75 | 75 | 75 |
| Length of motorways | km | | | | |
| | 215 | 219 | 288 | 295 | 296 |

| Industry and agriculture | previous year = 100 | | | | |
|--|----------------------------|-------|-------|------|--------|
| Industrial production volume indices ²⁹ | 102,5 | 102,7 | 103,6 | 97,0 | 109,3 |
| Gross agricultural production volume indices | 102,0 | 99,0 | 94,1 | 97,5 | 86,4 E |

| Standard of living | per 1000 inhabitants | | | | |
|---|-----------------------------|-------|-------|-------|-------|
| Number of cars | 197 | 211 | 222 | 229 | 236 |
| Main telephone lines | 232,0 | 258,6 | 285,5 | 308,2 | 314,0 |
| Number of subscriptions to cellular mobile services | 5,3 | 35,7 | 92,2 | 123,1 | 205,0 |
| Number of Internet subscriptions ³⁰ | 18,6 | 35,3 | 92,7 | 111,2 | 93,9 |

E=estimate

²⁹ Data up to the year 1998 are indices of the goods industrial production, since 1999 indices of the industrial production are processed according to the EU methodology. Data are not comparable.

³⁰ Source: Ministry of Transport, Post and Telecommunication of the Slovak Republic.

Methodological Notes

Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonized Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1995 (rates from 1996).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series are available from 1997; the 1996 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified to DG ECFIN until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

External trade

Imports and exports (current prices). The recording is based upon the special trade system, according to which, external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licenses, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). The term FOB means that all costs incurring in course of transport up to the customs frontier charges to the seller. The term CIF means that the purchaser discharges the additional costs. Exports and imports are recorded here on FOB basis. Recording of data in case of exports is realized with the date the commodities cross the state border, in case of imports - with the date the commodities are released into circulation in the country.

Imports and exports with EU-15. Data declared by Slovakia.

Demography

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is: population (X+1) - population (X) - Deaths (X) + Births (X). This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by a country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

Labour force

Economic activity rate (ILO Methodology). Percentage of labour force in the total population aged 15+. This rate is derived from LFS (Labour Force Survey) observing the following ILO definitions and recommendations:

Labour force: employed and unemployed persons according to the ILO definitions stated below.

The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Professionals in military service and persons on maternity leave are included.

The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

- have no work,
- are actively seeking a job and

- are ready to take up a job within a fortnight.

Since year 2000 the data refer to calendar quarters (formerly seasonal quarters). The unemployment rate is recalculated on economically active persons (excluding persons on additional maternity (parental) leave, including the conscripts on compulsory military service).

Unemployment rate (by ILO methodology). Percentage of the unemployed labour force. This rate is derived from LFS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above)

Average employment by NACE branches (LFS). This indicator is derived from LFS (Labour Force Survey) observing the ILO definitions and recommendations.

Since the first quarter of 1997 the conscripts on compulsory military service are included in the LFS. Professionals in military service and persons on maternity leave are included.

Infrastructure

Railway network. All railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway. Road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

Industry and agriculture

Industrial production volume indices. Data on goods production (1995-1998) include estimates for enterprises and for tradesmen. Since 1999 Industrial production index is calculated on the basis of data on industrial products; data on industrial services; for enterprises with 20 and more employees and selected enterprises up to 19 employees; data are adjusted from the influence of different number of working days.

Gross agricultural production volume indices. The gross agricultural output is calculated on the basis of the turnover at current prices. Agricultural output index is recalculated to the constant prices of corresponding period of the previous year.

Standard of living

Number of cars. Passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Telephone subscribers. Number of telephone exchange stations per 1000 inhabitants as of 31.12. of the year surveyed.

Sources

Total area, external trade, labour market infrastructure, industry and agriculture, demography, standard of living (except Internet connection): National sources.

National accounts, balance of payment, inflation rate, public finance, financial indicators. Eurostat.